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ABSTRACT

Designed for teachers in high schools and adult education settings, this guide provides accurate and objective information for teaching basic personal financial planning, saving, and investing. It can be the framework for a short course or a supplement to existing high school or community college courses in mathematics, home economics, business education, economics, and personal finance. The six units each begin with a topic outline and contain learning objectives, background information for teachers and students, suggested activities, overhead transparency masters, student handouts and worksheets, additional resources, and a unit test and key. Unit topics are as follows: (1) financial decisions; (2) how financial markets work; (3) investment choices; (4) investment information; (5) investment fraud; and (6) ethics and fraud. The appendix includes sources of additional information and assistance and a glossary of terms. (YLB)

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CONSUMER APPROACH TO INVESTING

A Teaching Guide

with expanded section on Investment Fraud

Second Edition

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
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TO THE TEACHER

The National Institute for Consumer Education and National Futures Association share a common educational goal: to enhance the knowledge and skills of individual investors.

This teaching guide is a product of cooperative efforts to provide accurate and objective information for teaching basic personal financial planning, saving and investing. The easy-to-use format is designed for teachers in high school and adult education settings.

The 1992 edition of **Consumer Approach to Investing: A Teaching Guide** contains learning objectives that focus on:

- how to design a personal financial plan
- how financial markets work
- how to select among various savings and investment options
- how to find and use investment information
- how to recognize and victim-proof yourself from investment fraud
- the importance of ethical behavior in buyer and seller relationships

The teaching guide is an introduction to financial planning and investing. It can be the framework for a short course or a supplement to existing high school or community college courses in mathematics, home economics, business education, economics and personal finance. Using information in the guide on investment fraud and ethics, for example, a presentation could be developed for an adult community group.

Each unit contains learning objectives, background information for teachers and students, suggested activities, overhead transparency masters, student handouts and worksheets, additional resources and a unit test. The appendix includes sources of additional information and assistance and a glossary of terms.

Hundreds of classroom teachers used the first edition of **Consumer Approach to Investing** and provided suggestions for the second edition. The teaching guide is available to classroom teachers and adult educators through the National Institute for Consumer Education for $15.00.

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Consumer Education Framework

The conceptual framework of **Consumer Approach to Investing: A Teaching Guide** is based on the monograph **Classification of Concepts in Consumer Education** (Bannister, Rosella and Charles Monsma 1980) National Institute for Consumer Education, Eastern Michigan University. Research funds for the classification were provided by the United States Department of Education.

Consumer education is a continuing process of learning to manage personal resources and to influence the social, political, economic, technological and environmental decisions that affect consumer well-being.

DECISION MAKING

Factors Affecting Consumer Decisions

External
- Economic System
- Political System
- Social System
- Ecological Influence
- Technological Influence

Personal
- Resources
- Life Cycle
- Values and Goals
- Needs and Wants
- Lifestyle

Decision Making Process
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- Efficient Use
- Resource Substitution

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- Consumer Responsibilities
- Consumer Assistance

Consumer Advocacy
- Consumer Assertiveness
- Consumer Representation
- Consumer Organizations

UNIT 1

FINANCIAL DECISIONS TOPIC OUTLINE

1•1 PERSONAL FINANCIAL PLANNING

Worksheet
- Money Management: How Do You Rate?

1•2 FACTORS THAT INFLUENCE DECISIONS

Overheads
- Life Cycle Spending and Earning Patterns
- Financial Tasks of Young Adults

1•3 A PLAN TO REACH FINANCIAL GOALS

Worksheets
- Setting Goals
- Net Worth Statement
- Estimate Your Income
- Record Your Expenses
- Match Income and Expenses
- Gift Expenditure Chart

Overheads
- Average Household Spending
- Rural and Urban Spending

1•7 PROTECTION AGAINST FINANCIAL RISK

1•9 SUMMARY

Worksheet
- Readings on Investments

Test

Key to Test

1•10 SELECTED RESOURCES

UNIT 1

Unit Objectives

- Discuss the benefits of planning personal financial affairs.
- Consider factors that influence financial decisions.
- Design a personal financial plan.
- Discuss ways to protect assets against financial risk.

Pre-Test exercise

Ask students to write a brief paragraph on the following:

Your rich uncle just gave you $1,000 to spend as you wish. What will you do with this money and why?

At the end of the unit ask students to reconsider the paragraph they wrote at the beginning of the unit.

Introduction Videos

View and discuss one of the following videos:

***Winning the Money Game**, from Household International, or*

***Designing Your Financial Plan**, from the Altschul Group.*

See Selected Resources 1-10.

Discussion Starter

Worksheet 1-11

MONEY MANAGEMENT: HOW DO YOU RATE?

Discuss areas where participants plan to improve their financial planning knowledge and skills.

FINANCIAL DECISIONS

You can successfully manage your money if you have the know-how and the will to set aside some of today's income for the things you want and need in the future. This unit will focus on basic financial planning principles to be considered prior to investing.

PERSONAL FINANCIAL PLANNING

Could you enjoy life yet live on ninety percent of your income? If you could save ten percent of your income for future goals, what would those goals be? It takes more than luck to get what you want out of life. You have to know what you want and then commit to a plan to meet your goals. The hazards of not planning include the risk of having a lifestyle of limited choices.

Benefits of a Plan

A financial plan can be a positive force that helps strengthen personal relationships as people work together to achieve goals. A financial plan helps people:

- live within their income
- identify financial priorities
- allocate funds to meet expenses
- meet financial emergencies and reduce credit use
- reduce uncertainty and conflict about financial affairs
- gain a sense of financial independence and control
- save and invest to reach financial goals

People want to feel comfortable about their financial affairs. A recent national survey showed that 75 percent of college freshmen are concerned about their future financial security as compared to only 44 percent in 1970.

What causes some people to feel financially secure and others not? Conditions that promote financial well being include:

- income to meet current needs
- savings to meet financial emergencies
- insurance to cover major risks (health, life, property and disability insurance)
- savings and investment programs to meet future goals
- participation in household financial affairs

FACTORS THAT INFLUENCE DECISIONS

Financial independence is an important goal for most people. Yet people sometimes miss the opportunity to become financially independent because they avoid making decisions and taking action to influence their financial well being. Sometimes they may not know what action to take. At other times, they simply procrastinate.

Among the factors that influence our financial decisions are our values, goals and attitudes, age and stage in the life cycle, level of education, and external factors such as income, and employer provided benefits.

Values and Goals

A value is something that a person considers to be important. Financial values vary from person to person. Not everybody wants the same lifestyle. Some people dream of having expensive cars, spacious homes and many possessions. Others search for the simple life, uncluttered by material goods. Our values influence the way we earn, spend, save, invest and share money. Personal values are influenced by family and friends, by television and movies, by what attracts us in the marketplace.

For example, you may want to go to college, yet you want to earn money to buy a new car. If you cannot afford both, you must make a choice.

A goal is a preferred future condition. It is more that a hope. Our goals are based on our values. Since we have a limited amount of money, we choose those things we value most. Saving part of current income to purchase a car is taking action to reach a goal.

Social scientists explain that people often use money to gain security, power, freedom, love and acceptance. If taken to extreme, such motivations will produce an unbalanced lifestyle. For example, the search for power can turn to greed which, in turn, can foster unethical behavior in the marketplace. Unit Six will focus on ethical standards as a deterrent to investment fraud.

Filmstrip on Values

View and discuss the classic filmstrip ***Money and Values***, *from Learning Seed*. See Selected Resources 1-10.

Overhead 1-13

LIFE CYCLE SPENDING AND EARNING PATTERNS

Age and Stage in the Life Cycle

Financial responsibilities change as people live through various stages of the life cycle. Young single adults face a different set of financial tasks than do households with young children. People in their 40s and 50s are usually at the peak of their lifetime annual earnings. Yet these people often face financial challenges such as paying college costs for their children, stepping up their retirement savings program, and taking financial responsibility for aging parents.

FINANCIAL TASKS OF YOUNG ADULTS

Overhead 1-14

Among the tasks young adults face as they move into the 18-26 age group are to:

- select and train for a career
- maintain a good credit record
- develop a personal financial plan
- consider insurance protection
- start a savings and investment program

Education, Income and Employer Provided Benefits

The odds are against winning the lottery or inheriting great wealth. So the primary source of funds for most people is income from employment. On average, the higher your educational level the higher your annual income and overall lifetime income will be.

A steady job builds financial security while unemployment can play havoc with financial well being. People with job skills that are in high demand are less likely to be unemployed. In addition, these people have the choice of jobs that offer a favorable package of income and fringe benefits.

Many employers provide group fringe benefits that would be expensive if purchased by individuals. A few years ago employee benefits left little opportunity for individual choice. Today, employers offer many options. For example, several different health insurance plans may be available to the employee.

Some employers contribute to employee savings and investment programs. For example, a company may contribute fifty cents for every dollar the employee saves or invests in company-approved plans.

Some employers offer flexible compensation plans which allow employees to divert some of their earnings to options such as child care or legal services. These flexible plans can be adapted to meet the different needs of households at various stages of the life cycle. As the number of options grows, so does the need for informed financial decision making.

Develop Case Studies

Have small groups develop a realistic description of typical income and expenses for a household in their geographic area. Groups could select one of the following life cycle stages for their case study:

- Single young adult living away from home
- College student living at home
- Young married couple, no children
- Married couple with two teenagers
- Single woman with one child
- Retired person living alone

Explain that each group will prepare a personal financial plan for the life cycle stage they are studying.

A PLAN TO REACH FINANCIAL GOALS

Discussion about Goals

Discuss the cost of personal goals such as:

- Spring break vacation trip
- Wedding with one hundred guests
- Furniture for a new apartment
- A college education

A financial plan is a tool to help you reach your goals. It is not a straight jacket to keep you from enjoying life. Think of a financial plan as a road map to help you get where you want to go. People use a road map when they begin a trip where they have not traveled before, yet many will take a financial journey through life without a road map. As a sage once said, "If you don't know where you are going, you may end up somewhere else."

A financial plan works best if you keep it simple, use realistic income and expense figures, and periodically review and adjust the plan to reflect changing conditions and goals. A common mistake people make is to prepare a financial plan and then fail to put it into action.

Develop a Financial Plan

Have small groups complete each of the following worksheets for their case study after each topic has been discussed in class.

Developing a Financial Plan

An effective financial plan involves information gathering, decision making, action and evaluation. Steps in the financial planning process include:

1. identify financial goals
2. figure net worth
3. estimate income and expenses
4. review personal debt situation
5. allocate savings to reach goals
6. balance income and expenses
7. implement the plan
8. review and modify the plan as necessary

Questions people may ask while designing their financial plan include:

- What are our short and long term goals?
- What is our total income after taxes and deductions?
- What are our current living expenses?
- What changes in living expenses do we expect?
- How much can we save each month for future goals such as college expenses or a down payment on a car?
- Are we using credit wisely?
- How can we protect against inflation?
- How can we plan for retirement?

SETTING GOALS

Worksheet 1-15

Identify Goals

The first step in designing a financial plan is to identify your goals. It is more fun to save and invest if you have specific goals in mind. And it is easier to identify and rank goals if you group them into short-term and long-term goals.

- **Short-term** goals are those to be reached within a year or less. Examples of short term financial goals are to build an emergency fund, buy a new coat, pay off a charge card or build a holiday gift fund.

- **Long-term** goals are those to be achieved in more than a year, sometimes five or more years. Examples of typical long-term goals are home ownership, college education, special dream vacation, money to start a business, and a comfortable retirement income.

Short and long-term goals are often related. A short-term goal may be to save $100 a month in order to reach the long-term goal of saving $3,000 for a down payment on a new car. After you have identified your goals, the question is: how much will each goal cost? Are some goals more important than others? Decide when you hope to reach each goal and estimate how much money to save each month to reach each goal. Where will you put your savings dollars? Units Three and Four will explore savings and investment choices, and the effects of compounding on savings.

NET WORTH STATEMENT

Worksheet 1-16

Figure Net Worth

The next step in designing your financial plan is to look at your current financial situation. An excellent way to do this is to prepare a net worth statement.

A net worth statement, sometimes called a balance sheet, is a comparison of what you own and what you owe. It is like a photograph of your financial condition at a specific time.

To figure your net worth, list all of the things you own (assets), then list money owed to others (liabilities). Total your assets and your liabilities, then subtract your total liabilities from your total assets. Do you have a positive or a negative net worth?

It is not uncommon for young adults to have a negative net worth as they incur debts greater than their current income. A 1991 US Census Report revealed that eleven percent of households have a zero or negative net worth while nine percent were worth a quarter million or more. As with income, wealth rises with educational level and is higher for home owners and married couples.

Prepare a net worth statement once a year. Then compare your annual net worth statements, and if necessary, modify your financial behavior or your goals to meet your changing financial situation.

ESTIMATE YOUR INCOME

Worksheet 1-17

Estimate Income and Expenses

Total all the income you expect to receive during the coming year. Begin with regular income such as wages, Social Security benefits, public assistance and child support payments, gifts, allowances, interest and dividends.

Keep careful records for two or three months to see where the money goes. Use old records, receipts, bills and cancelled checks to estimate future expenses. Now is the time to consider which expenses can be cut back and which should be increased. If you spent too much last year on clothes and recreation, you may decide to cut back on spending in these areas and apply the money to a specific goal.

RECORD YOUR EXPENSES

Worksheet 1-18

Expenses that come due periodically can be broken down into monthly amounts in the budget. For example, if your car insurance is $1,200 per year, payable in two payments of $600, it could be shown in the budget as a $100 monthly expense. During months when there are no car insurance payments the money can be set aside in a savings account so that when the payment is due, the money is there to pay for it.

Review Personal Debt Situation

Credit allows people to have and enjoy things now and pay for them later. It can be a cushion in emergencies and it is convenient. But credit costs money and tempts us to overspend. People who cannot pay their debts will soon have an unfavorable credit report which can influence their ability to obtain new credit for years to come.

How much debt can your afford? One liberal rule of thumb is that no more than twenty percent of a household's take-home pay should be committed to consumer installment and credit card debt.

Paying cash is almost always less expensive than using credit. When you do use credit, it is in your best interest to borrow as little as possible, seek the lowest finance charge, and pay off the loan as soon as possible.

Allocate Savings to Reach Goals

Financial advisors often suggest that you pay yourself first. That is, establish a set amount to save each payday and put it in savings rather than spending the money on current consumption. The habit of regular savings for future goals is a powerful financial tool, even if the amount saved each payday is small. People living at low income levels may find it difficult to save money because current income is needed for current living expenses, but even a few dollars a month can grow and contribute to financial independence.

Worksheet 1-19

MATCH INCOME AND EXPENSES

Balance Income and Expenses

Compare your total monthly income with the total estimated expenses. If expenses exceed income, where are you overspending? Which expenditures can be postponed? How can you increase your income?

If your income exceeds expenses, you can increase savings for goals, satisfy more immediate wants, and increase giving to worthy causes.

Worksheet 1-20

GIFT EXPENDITURE CHART

Gifts are among those extra expenses that over time, can throw a budget way out of line. We tend to buy gifts out of obligation or on impulse, and we do not take time to comparison shop. It helps to review what you spent on gifts last year. If you feel that you overspent on gifts, consider ways to reduce spending this year.

While it can be helpful to compare your expenses with what other people spend, each household's situation will be different, and decisions should be based on your financial goals and current situation. The US Bureau of Census conducts an annual consumer expenditure survey and reports the data in terms of average annual spending by households. For information on the most recent data, contact the Bureau of Labor Statistics at (202) 272-5060.

What Other People Spend

Overhead 1-21

AVERAGE HOUSEHOLD SPENDING

Overhead 1-22

RURAL AND URBAN SPENDING

Implement the Plan

Taking action to implement and monitor the financial plan is essential to its success. Who will:

- pay the bills?
- balance the checkbook?
- review monthly financial statements?
- set up a savings account for financial emergencies?
- shop for the best value in goods and services?
- check out potential saving and investment plans?
- fill out the income tax forms?

Discuss the overhead ***Average Household Spending,*** and the related chart titled ***Rural and Urban Spending.*** Point out that housing and transportation together make up 50 percent of average household expenses. Example discussion questions are:

1. What percentage of total household spending is spent by the average consuming unit on health care in urban areas? **(4.9%)** On entertainment? **(5.1%)** On education? **(1.4%)**

2. How much is spent by the average rural consuming unit each year on transportation? **($5,126)** What percentage of total spending is this? **(22.2%)**

Discussion: Emergency Fund

Using the suggested guideline that every household should have an emergency fund equal to three times monthly take-home pay, analyze the emergency fund needs of a young single person living alone with monthly take-home pay of $1,500.

Contrast this situation with that of a single parent with two school-aged children and monthly take-home pay of $1,500.

It is important that each household assign tasks and take action to carry out the financial plan. While one person may pay the bills and keep financial records, all adult household members should be involved in major decisions that affect household income and expenses. Open communication among family members about financial affairs can help avoid problems that stem from lack of information or differing opinions about how money is to be used.

Review and Modify the Financial Plan

A financial plan is not a static thing. It is a tool to help you reach your financial goals. Keep reviewing and modifying the plan until you and other household members are comfortable with the way you are using your income.

PROTECTION AGAINST FINANCIAL RISK

An important goal of a financial plan is to protect against financial risk. Two ways people prepare for unexpected expenses and/or a decline in income are with an emergency savings fund and with insurance. In addition, tax-supported social insurance programs provide a safety net for people who meet strict eligibility requirements.

The Emergency Fund

What would you do if one of the following emergencies happened to you?

- Your car has been stolen and you need a car for your job.
- You have a serious tooth ache. Your dental bill is already $800 and you do not have dental insurance.
- You are laid off from your job.

Everyone should have savings to meet financial emergencies that are not covered by insurance. How much money should be in your emergency fund? Where should you keep this money?

The amount of money in the emergency fund will vary with each household. Factors that influence the size of the emergency fund include the amount your household spends for:

- food
- rent or house payment
- utilities and home maintenance
- clothing and personal needs of household members
- household debt

Financial advisors suggest that you have money to cover at least three months living expenses in readily available funds. These funds should be placed in an insured bank or credit union, or in a money market mutual fund where savings can be withdrawn easily when needed.

Insurance

Common types of insurance include life, health, disability, property and liability insurance. A reputable insurance agent can help determine how much and what type of insurance is needed. When should you purchase insurance?

- Purchase insurance when the amount of loss would be beyond what you could afford to pay.
- Purchase insurance to protect against a loss that may be uncommon but would be catastrophic if it occurred, such as the death of the wage-earner.
- Purchase health and disability income insurance if your employer does not provide such coverages.

Health insurance. Health insurance provides protection against financial loss resulting from illness, injury and disability. Some employers provide basic health insurance and limited disability insurance. Find out if your employer provides major medical insurance for long term care. Should you supplement the insurance provided by your employer?

Most people need income disability insurance to protect against loss of income if they should become disabled and unable to work. If not available through the employer, disability insurance can be purchased from life insurance companies.

Life insurance. The basic purpose of life insurance is to protect dependents from economic hardship if the wage earner should die. Young people with no children usually do not need life insurance. Young couples with children may need life insurance on both parents.

Life insurance comes in two types: term and cash value. Term life insurance pays only if the insured person dies within a specified period of time. Premiums for term insurance rise as a person grows older, but the cost is far less than cash value life insurance.

Cash value life insurance has a savings/investing element that term insurance does not have. It is initially priced from three to eight times higher than term insurance.

Many financial advisors suggest that young families who need insurance protection purchase term life insurance rather than cash value insurance. While it provides more protection for the money, it has no savings value.

Property and liability insurance. Property insurance provides protection against losses resulting from the damage to property, while liability insurance provides protection against losses suffered by others for which the insured person is responsible. Auto insurance combines property and liability insurance into a single package policy.

Landlords do not carry insurance on the personal property of tenants, so even renters need insurance to cover their personal possessions.

Sometimes it is better to use your emergency fund money for relatively small unexpected expenses rather than to purchase full insurance coverage. For example, a deductible insurance policy on your car will be significantly less expensive than full coverage. The deductible is the amount you pay before the insurance policy begins to cover repairs for damages caused in an accident.

Social Insurance

While social insurance programs may be available to people in times of financial emergency, most have very strict requirements before a person can qualify. These programs are supported by taxpayers or employers and provide limited assistance for those who meet eligibility requirements.

Worker's compensation provides for lost income and pays medical bills if the loss is work related.

Unemployment compensation provides some income to make up for lost wages for anywhere from 26 weeks to two years, depending upon the state and general economic conditions.

Social security disability provides some income for those who are permanently and totally disabled.

These programs do not fully replace lost income, but when they are combined with personal savings, they can provide an important safety net for people who are experiencing serious financial hardship.

Worksheet 1-23

READINGS ON INVESTMENTS

Have participants collect and review current articles on personal financial planning, using the worksheet titled ***Readings on Investments.***

Post-Test Exercise

Reconsider the paragraph you wrote at the beginning of the unit.

Your rich uncle just gave you $1,000 to spend any way you wish. What will you do with this money and why?

Have your feelings about the use of money changed?

Administer Unit Test and Discuss Answers

Test 1-24

UNIT TEST

SUMMARY

This unit has highlighted basic financial planning principles to be considered prior to investing. After establishing a personal financial plan as a foundation, one can continue to build wealth through savings and investments.

Key To Test

Matching	Multiple Choice	True or False
1. G	1. B	1. False
2. K	2. C	2. False
3. A	3. A	3. False
4. J	4. A	4. True
5. E	5. D	5. False
6. B		6. True
7. D		7. False

SELECTED RESOURCES

Media

Choices and Decisions: Taking Charge of Your Life, learning module and interactive video. VISA U.S.A., Inc. Post Office Box 8999, San Francisco, CA 94128-8999. 1991.

Credit Cards: Living with Plastic, video. Learning Seed, 330 Telser Rd., Lake Zurich, IL 60047. 1990. $89.00

Designing Your Financial Plan, video. The Altschul Group, 930 Pitner Avenue, Evanston, IL 60202. 1985. $149.00

Money and Values, filmstrip and cassette. Learning Seed, 330 Telser Rd., Lake Zurich, IL 60047. 1980. $68.00

Winning the Money Game, video. Money Management Institute, Household International, 2700 Sanders Rd., Prospect Heights, IL 60070. 1983. $12.00

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Managing Your Personal Finances. Three parts: 1-The Principles of Managing your Finances; 2-Financial Tools Used in Money Management; 3-Coping with Change. House & Garden Bulletin #HG-245-3, U. S. Dept. of Agriculture, 1986. Available from Government Printing Office, Consumer Information Center-C, P. O. Box 100, Pueblo, CO 81002. 1987. $6.50

Books

Garman, Thomas and Ray Forgue. **Personal Finance,** 3rd edition. Boston: Houghton-Mifflin Company, 1991.

Goldberg, Herb and Robert T. Lewis. **Money Madness: The Psychology of Saving, Spending, Loving and Hating Money.** New York: William Morrow & Co., 1978.

Kapoor, Jack, Les Dlabay, and Robert Hughes. **Personal Finance,** 2nd edition. Homewood, IL: Irwin, 1991.

Name _____ Date _____

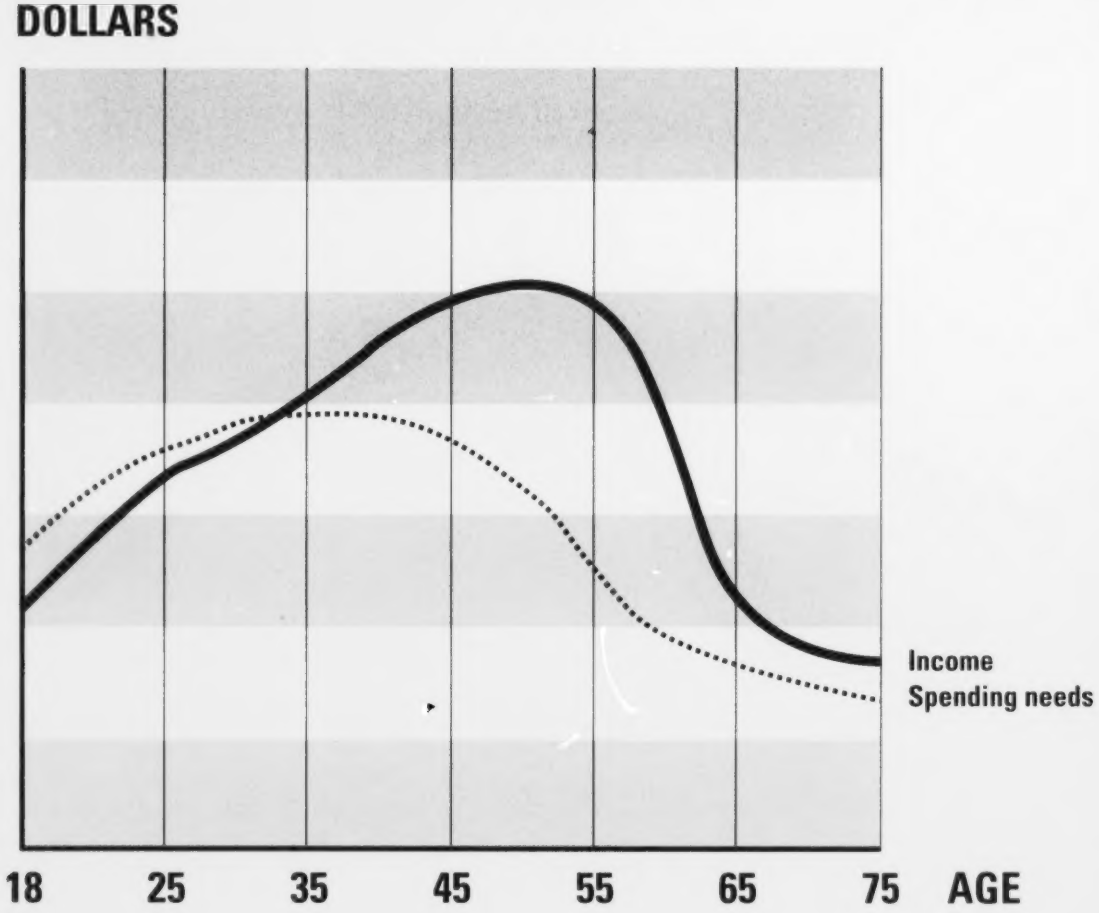
MONEY MANAGEMENT

HOW DO YOU RATE?

	OK	Need to improve
I have a filing system to keep track of household bills, payments and financial records.	_____	_____
I have a written list of financial goals with an estimated cost of each goal.	_____	_____
I save money regularly in order to achieve specific goals.	_____	_____
I have an emergency fund available to use if necessary for minor catastrophes that are not covered by insurance.	_____	_____
I have a written plan to allocate my income to meet expenses and to save for future goals.	_____	_____
I review and revise my financial plan periodically to meet changing financial goals and needs.	_____	_____
I compare costs and services of bank checking accounts, knowing that charges and services can vary widely.	_____	_____
I move money from bank savings into higher return investments when my account balance exceeds current needs.	_____	_____
I avoid impulse buying because unplanned spending could sabotage my financial plan.	_____	_____
I avoid overspending for holidays and special events by setting gift spending limits that are in line with my goals.	_____	_____
When I have a cash flow problem, I cut back on spending until my expenses are in line with my income.	_____	_____
I use credit carefully and avoid interest charges when possible by paying off credit card debt monthly.	_____	_____

	OK	Need to improve
I save for major purchases when possible rather than to use credit cards and pay 14 to 21 percent interest on borrowed money.	_____	_____
I know what insurance protection my employer provides and I supplement that insurance where necessary.	_____	_____
I compare insurance coverages and costs, and purchase only the insurance that I need.	_____	_____
I have my employer withhold the right amount in taxes in order to avoid lost interest income on large tax refunds.	_____	_____
I check out charities before making contributions from phone or door solicitations, knowing that many are frauds.	_____	_____
I just say no to telemarketing investment deals, knowing that if it sounds too good to be true it usually is fraudulent.	_____	_____
I carefully consider the tax-advantaged saving and investment opportunities provided by my employer.	_____	_____
I compare the health insurance options available through my employer and choose the best option for my needs.	_____	_____
I read current personal finance articles and take classes to improve my knowledge of personal money management.	_____	_____

LIFE CYCLE SPENDING AND EARNING PATTERNS



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FINANCIAL TASKS OF YOUNG ADULTS

- Select and train for a career
- Maintain a good credit record
- Develop a personal financial plan
- Consider insurance protection
- Start savings and investment programs

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Name _____ Date _____

SETTING GOALS

Will you spend it all today or save part of your money for future goals? It is more fun to save when you have specific goals in mind. This worksheet will help you identify your goals and decide how much to save each month in order to reach your goal by a specific date.

1. List several important short-term and long-term goals.
2. Estimate the cost of each goal and when you expect to reach the goal.
3. Record the amount of money already saved to meet this goal.
4. Figure how much money to save each month in order to reach the goal.

SHORT-TERM GOALS	COST	WHEN	ALREADY SAVED	MONTHLY SAVINGS	WHERE SAVED
1.					
2.					
3.					

LONG-TERM GOALS	COST	WHEN	ALREADY SAVED	MONTHLY SAVINGS	WHERE SAVED
1.					
2.					
3.					

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Name _____ Date _____

NET WORTH STATEMENT
(PERSONAL BALANCE SHEET)

Assets — What You Own

Cash on hand	_____
Checking account	_____
Savings (CDs, IRAs, U.S. SAVINGS BONDs, etc.)	_____
Cash Value of Life Insurance	_____
Personal property (market value of car, jewelry, bicycle, home, etc.)	_____
Money owed you	_____
Investments (market value of stocks, bonds, mutual funds, etc.)	_____
Other _____	_____
Total Assets	_____

Liabilities — What You Owe

Credit and charge card balances	_____
Installment loans (auto, furniture, bank loan)	_____
Personal loans	_____
Mortgage balance	_____
Educational loan	_____
Other _____	_____
Total Liabilities	_____

Net Worth (Assets minus liabilities = Net Worth) _____

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Name _____ Date _____

ESTIMATE YOUR INCOME

	Month 1	Month 2	Month 3
Wages (after deductions)			
• Wage Earner 1	_____	_____	_____
• Wage Earner 2	_____	_____	_____
Social Security	_____	_____	_____
Public Assistance Payments	_____	_____	_____
Child Support	_____	_____	_____
Gifts/Allowance	_____	_____	_____
Interest	_____	_____	_____
Dividends	_____	_____	_____
Other*	_____	_____	_____
	_____	_____	_____
Monthly Totals	_____	_____	_____

* Other Income could include: Retirement Payments, Unemployment Payments, Alimony, Disability Payments, Annuity Payments, Rents on Real Estate.

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Name _____ Date _____

RECORD YOUR EXPENSES

3 MONTH WORKSHEET

	Month 1	Month 2	Month 3
HOUSING			
Rent or Mortgage			
Electricity			
Gas/Oil			
Telephone			
Water/Sewer			
Property Tax			
Furnishings/Equipment			
FOOD/CLOTHING			
Food at Home			
Food Away from Home			
Clothing			
Laundry/Cleaning			
TRANSPORTATION			
Bus, Train, Taxi			
Gasoline and Oil			
Auto Maintenance			
Parking/Tolls			
License			
LOANS			
Auto Loans			
Student Loans			
Other Loans			

	Month 1	Month 2	Month 3
INSURANCE			
Life			
Medical/Dental			
Auto			
Disability			
Homeowners/Renters			
EDUCATION AND PLAY			
Tuition and Books			
Subscriptions/Dues			
Recreation/Cable TV			
Vacations			
HEALTH CARE			
Doctors			
Dentist			
Medicines			
SET-ASIDES			
Emergency Fund			
Savings for Goals			
OTHER			
Personal Care			
Child Care			
Pet Food and Care			
Allowances			
Gifts			
Contributions			
MONTHLY TOTALS			

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Name _____ Date _____

MATCH INCOME AND EXPENSES

	Month 1	Month 2	Month 3
Income	_____	_____	_____
Expenses	_____	_____	_____
Surplus or Deficit	_____	_____	_____

If Expenses Exceed Income

- Where are you overspending?
- Where can you cut back?
- Which expenditures can be postponed?
- How can you increase income?
  - — A better job
  - — A second job

If Income Exceeds Expenses

- Increase savings for future goals.
- Satisfy more immediate wants.
- Increase giving.

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Name _____ Date _____

GIFT EXPENDITURE CHART

Gifts are among those extra expenses that when added together can throw a budget way out of line. People tend to buy gifts on impulse and fail to comparison shop.

1. Place a total dollar amount by each category of gift spending last year.
2. Analyze last year's gift spending and estimate how much you will spend this year.
3. Decide whether you will spend more or less on gifts this year than last year.

	Spent on gifts last year	**Plan to spend this year**
Birthdays	$_____	$_____
Anniversaries	_____	_____
Weddings	_____	_____
Births	_____	_____
Deaths	_____	_____
Valentine's Day	_____	_____
Easter	_____	_____
Mother's Day	_____	_____
Father's Day	_____	_____
Graduation	_____	_____
Christmas & Hanukkah	_____	_____
Other	_____	_____
Total	$_____	$_____

Will you spend more or less on gifts this year than last year? Why?

_____

_____

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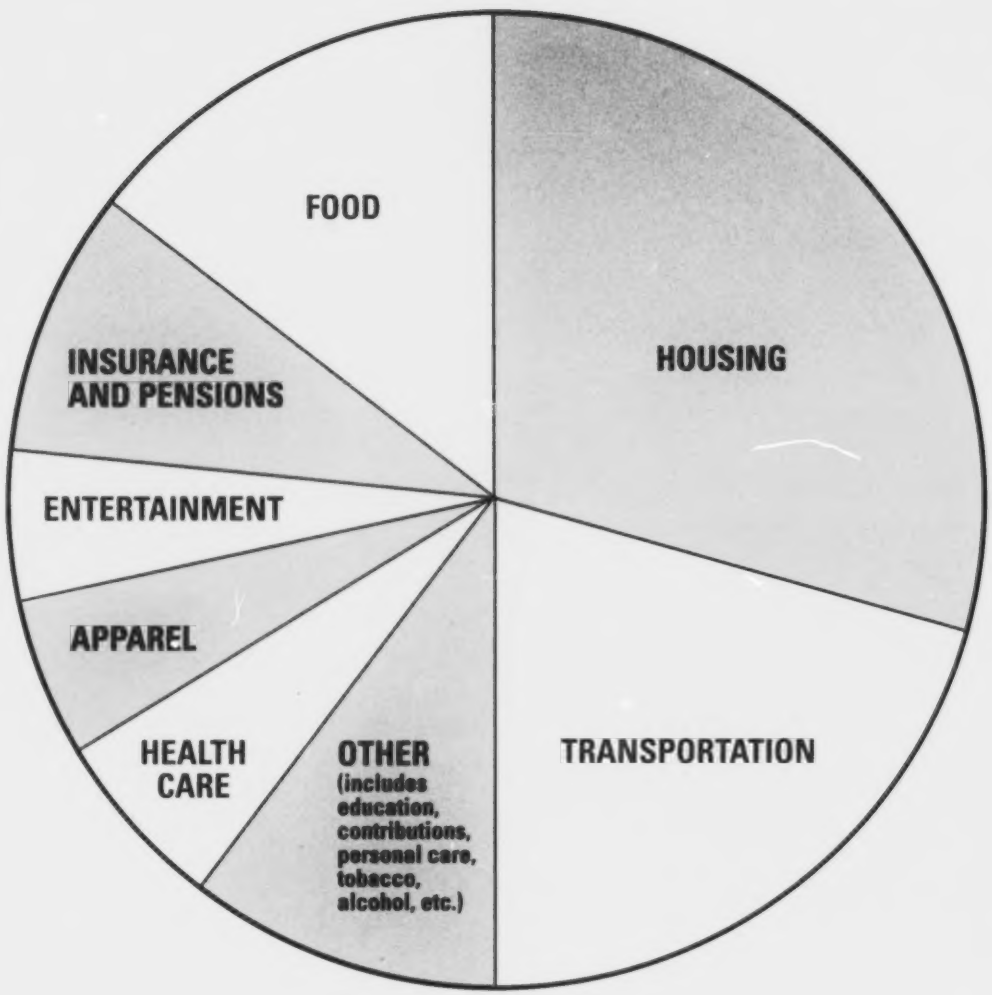
AVERAGE HOUSEHOLD SPENDING



Adapted from Bureau of Labor Statistics Consumer Expenditure Survey, 1989

RURAL AND URBAN SPENDING

(average annual spending by consumer units in rural and urban areas, 1989)

	Annual Spending		Percent of Total	
	rural	urban	rural	urban
Average annual spending, all items	**$23,106**	**$28,584**	**100.0**	**100.0**
Food	**3,916**	**4,191**	**16.9**	**14.7**
Food at home	2,548	2,364	11.0	8.3
Food away from home	1,368	1,827	5.9	6.4
Alcoholic beverages	**192**	**299**	**0.8**	**1.0**
Housing	**6,277**	**8,993**	**27.2**	**31.5**
Shelter	2,821	5,166	12.2	18.1
Utilities, fuels, public services	1,837	1,834	8.0	6.4
Household operations	300	486	1.3	1.7
Housekeeping supplies	352	401	1.5	1.4
Household furnishings and equipment	967	1,106	4.2	3.9
Apparel and services	**1,103**	**1,661**	**4.8**	**5.8**
Transportation	**5,126**	**5,197**	**22.2**	**18.2**
Vehicle purchases (net outlay)	2,429	2,268	10.5	7.9
Gasoline and motor oil	1,167	955	5.0	3.4
Other vehicle expenses	1,402	1,665	6.1	5.8
Public transportation	128	309	0.6	1.1
Health care	**1,521**	**1,388**	**6.6**	**4.9**
Entertainment	**1,149**	**1,469**	**5.0**	**5.1**
Personal-care products and services	**269**	**382**	**1.2**	**1.3**
Reading	**119**	**163**	**0.5**	**0.6**
Education	**188**	**396**	**0.8**	**1.4**
Tobacco and supplies	**272**	**259**	**1.2**	**0.9**
Miscellaneous	**472**	**671**	**2.0**	**2.3**
Cash contributions	**622**	**946**	**2.7**	**3.3**
Personal insurance and pensions	**1,880**	**2,569**	**8.1**	**9.0**

Source: Bureau of Labor Statistics, Consumer Expenditure Survey, 1989 as reported in **American Demographics**, May 1991

Name _____ Date _____

Topic _____

UNIT 1

READINGS ON INVESTMENTS

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article _____

Source _____ Date _____

Author (if given) _____

2. Write a brief summary of the main ideas of the article or pamphlet.

_____

_____

_____

_____

_____

_____

_____

_____

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

_____

_____

_____

Attach a copy of the article or pamphlet to this page.

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Name _____ Date _____

FINANCIAL DECISIONS

UNIT 1 TEST

Matching

Match each of the terms listed below with the numbered definition. Write the letter in the space provided.

A. value	G. emergency fund
B. goal	H. insurance
C. decision making	I. budget
D. pay yourself first	J. financial plan
E. net worth	K. college education
F. living expenses	L. investments

1. _____ money that is readily available for unexpected expenses
2. _____ example of a typical long-term goal
3. _____ something that a person considers to be important
4. _____ an organized process of allocating income to achieve financial goals
5. _____ what you own minus what you owe
6. _____ a specific statement about a desired future condition
7. _____ the idea that one should regularly set aside money for savings

Multiple Choice

Circle the letter which best completes the sentence.

1. Financial net worth is
   A. liquid assets minus long-term investments
   B. total assets minus total liabilities
   C. total investments minus total debt
   D. original securities price minus market value
   E. the worth of all personal assets

2. "Pay yourself first" suggests that a person should
   A. avoid creditors and purchase non-essentials
   B. establish a business and work as president
   C. set aside money for regular savings
   D. pay back a loan you borrowed from yourself
   E. cut back on spending for essentials

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3. Before investing, a person should have all of the following **except**

A. a savings account equal to two year's income
B. sufficient income to exceed current needs
C. savings to cover typical emergencies
D. adequate auto and property insurance
E. adequate life and health insurance

Tom and Netta Worth have applied for a loan. In order to process their application, the bank needs to have the Worth's balance sheet, or net worth statement. Following is a list of their financial details:

- $500 in checking
- $850 in unpaid bills
- $2,500 in car loans
- $18,000 house mortgage
- 2 cars worth a total of $6,500
- stocks and bonds worth $12,000
- house valued at $58,000
- personal property valued at $10,000

4. What is the amount of the Worth's total assets?

A. $87,000
B. $83,000
C. $37,000
D. $33,000

5. What is Tom and Netta's net worth?

A. $15,650
B. $11,650
C. $61,650
D. $65,650

True or False

Read each statement carefully and mark in the blank a T for True or F for False.

_____ 1. People who have low incomes have little need to develop a personal financial plan.

_____ 2. Personal money management is easy; people rarely need to spend time and effort learning how to manage money.

_____ 3. People have a given set of financial values that remain with them for life.

_____ 4. A financial plan can help eliminate uncertainty and conflict about financial matters.

_____ 5. Investing should be the first priority in any financial plan.

_____ 6. Your educational level is an important indicator of your expected lifetime earnings.

_____ 7. It is against the law for employers to contribute to employee savings and investment programs.

UNIT 2

HOW FINANCIAL MARKETS WORK
TOPIC OUTLINE

2•1 **TYPES OF FINANCIAL MARKETS**

Handout • Recent Graduate Buys Company Stock

Worksheet • Recent Graduate Buys Company Stock

2•3 **HOW SECURITIES ARE BOUGHT AND SOLD**

2•3 **REGULATION OF FINANCIAL MARKETS**

2•4 **FACTORS THAT AFFECT PRICE**

Worksheet • Watch the Dow

Overhead • Varying Returns on Different Investments

2•5 **SUMMARY**

Test

Key to Test

2•5 **SELECTED RESOURCES**

UNIT 2

Unit Objectives

- Describe types and purposes of financial markets.
- Explain how securities are bought and sold.
- List agencies that regulate financial markets.
- Discuss factors that affect the price of investments.

HOW FINANCIAL MARKETS WORK

A financial market is a place where firms and individuals enter into contracts to sell or buy a specific item such as a stock, bond, or futures contract. Buyers seek to buy at the lowest available price and sellers seek to sell at the highest available price. Markets provide a meeting place for buyers and sellers where prices are determined.

Personal benefit, sometimes called economic self-interest, motivates many people to invest in stocks and bonds. In the 1990s, approximately one of every four persons in the United States owns stock in corporations. People invest because they believe that it is possible to gain more from investments than from a basic bank savings program.

Introduction: Case Study

Have students read the case study ***Recent Graduate Buys Company Stock*** and answer the questions on the student worksheet.

RECENT GRADUATE BUYS COMPANY STOCK

Handout 2-7
Worksheet 2-10

This case study can stimulate student interest and give a frame of reference for further study of how financial markets work.

TYPES OF FINANCIAL MARKETS

Securities markets deal primarily with stocks and bonds. The purpose of a securities market is primarily for business to acquire investment capital. Examples of securities markets include the New York Stock Exchange, and the American Stock Exchange, also in New York City.

Another securities market is the Over-the-Counter market. The OTC is not a place but a computer network of dealers who buy and sell via telecommunications. The OTC market has much larger dollar volume than the securities exchanges. It generally involves lower-priced stock of new and smaller corporations.

Futures markets trade on the future price of commodities and financial products. The purpose of a futures market is to provide businesses with a way to manage price risk. Examples of futures markets are the Chicago and the New York Mercantile Exchanges and the Chicago Board of Trade.

Securities Markets Raise Financial Capital

Businesses need to raise money (capital) to purchase machines, equipment and buildings. In order to raise capital, business can borrow money or acquire new owners.

Business can borrow. Businesses can raise money by borrowing from financial institutions such as banks. This debt must be repaid and interest must be paid on the debt.

Another way companies borrow money is to offer bonds for sale. Bonds are printed obligations to repay a specific amount on a given date and to pay a certain amount of interest. Corporations issue millions of dollars worth of bonds to raise the capital to expand. Holders of bonds are not owners of the company but are its creditors. Bonds are usually issued in large denominations of $1,000 each.

Video and Discussion
View and discuss ***The Joy of Stocks: Forbes Guide to the Stock Market;*** segment one, ***Getting Started,*** and segment two, ***Before You Buy,*** *from MGM/UA Home Video.*
See Selected Resources 2-6.

Business can acquire new owners. Business partnerships can add new partners who buy into the firm and increase the amount of money available to produce goods and services.

Corporations can issue stock, each share representing ownership in the corporation. This does not create a debt, but the owners share in the profits of the company. The corporate owners participate in running the company by voting at annual meetings. For Example:

A small home-town pizza store decides to enlarge its business and establish stores in neighboring towns. It needs money (capital) in order to expand. The owners decide to increase the number of owners and increase capital by selling stock in the company.

Futures Markets and Price Risk

Video and Discussion
View and discuss
For the Investor's Protection, *from National Futures Association.*
See Selected Resources 2-6.

Have students prepare a brief report on futures markets. Report topics could include:
- Definition of futures contract
- Why farmers sell futures contracts
- Who buys futures contracts and why
- Who regulates futures markets
- Why futures contracts are considered high-risk investments

Futures markets provide a way for business to manage price risks. Buyers can obtain protection against rising prices and sellers can obtain protection against declining prices through futures contracts.

In the spring, Farmer Jones planted 100 acres of soybeans and he anticipates that in September he will harvest 5,000 bushels. He is concerned about what the price of soybeans will be in September. If the price declines, he could lose money.

To avoid this risk, Farmer Jones has his futures broker sell a September contract for 5,000 bushels at the current price. In this way the farmer "locks in" his September selling price. If the market price in September is higher, the farmer will not realize as much gain, but if the price is lower, he will come out ahead.

The farmer exchanges the chance of earning extra income for the peace of mind that comes from knowing the selling price of his soybeans. This process of obtaining price protection is known as hedging.

More than sixty different types of commodities and financial products are traded on futures exchanges, ranging from corn, soybeans and cattle to gold, crude oil, foreign currencies and U.S. treasury bonds. The dollar value of futures contracts traded currently exceeds the dollar value of common stocks traded on all U.S. securities exchanges.

Futures contracts are not for beginning investors. Trading in futures carries substantial risk. To realize a profit, it is necessary to be right about both the direction and the timing of a price change. Investing in a futures contract is not appropriate for beginning investors. Even experienced investors rarely invest more than a small portion of a total investment portfolio in futures contracts.

HOW SECURITIES ARE BOUGHT AND SOLD

New issues of stock must be registered with the Securities and Exchange Commission. The stock must be registered in every state where it will be sold. A prospectus, giving details about a company's operation and the stock to be issued, is printed and distributed to interested parties. Investment bankers or brokerage houses buy large quantities of the stock from the company, and the company receives the money it seeks.

Stock certificates are issued in the name of the purchaser of the stock. Corporations have many different stockholders and must keep a record of their names and addresses. The stock certificate of ownership of a publicly held corporation can be transferred from one owner to another since a stock certificate is a negotiable instrument. Certificates may be held by brokerage houses in street name (broker firm's name) on behalf of the investor.

The potential buyer places an order with a broker for the stock he or she wishes to purchase. A broker is a licensed professional who is employed by a brokerage firm and who specializes in buying and selling securities. The broker puts in the buy order to the appropriate exchange. When someone who owns the desired stock is willing to sell at the price the buyer is willing to pay, the transaction takes place. Computer technology and telephones are used to execute the sale.

Ownership of bonds can also be transferred from one owner to another. As with stocks, buyers go through brokers and dealers. When the buyer and seller agree on a price, a transaction takes place. With the sale of both stocks and bonds, the broker is paid a commission or fee for handling the sale.

Futures contracts are sold through a futures commission merchant in the same way stocks and bonds are sold, only the orders are executed on the Boards of Trade.

Stocks, bonds and futures contracts can also be sold through commodity pools or mutual funds that involve professional managers making decisions about what to buy and sell. Managers are paid a fee and/or a percentage of profits.

Report and Discussion

Have students prepare brief reports on the functions of:

- Securities and Exchange Commission
- National Association of Securities Dealers
- Commodity Futures Trading Commission
- National Futures Association

REGULATION OF FINANCIAL MARKETS

The purpose of regulation is to assure that those who conduct business with the public do so in a professional and ethical manner in compliance with industry rules. Regulators do not have the responsibility of determining whether the investment is likely to succeed.

Securities exchanges are subject to rules and regulations of the Securities and Exchange Commission and the Federal Reserve Board.

The Over-the-Counter market is regulated by the National Association of Security Dealers which operates under the authority of the Securities and Exchange Commission.

Futures exchanges are subject to the rules and regulations of the Commodity Futures Trading Commission (CFTC). National Futures Association, authorized by Congress in 1982, is an industrywide self-regulatory organization whose rules are approved by the CFTC.

Further information on investor rights, responsibilities and protection under the law will be discussed in Unit 5 on investment fraud.

Worksheet 2-11

WATCH THE DOW

Have students watch the Dow-Jones Average of Industrial Stocks for 20 days and suggest reasons why prices went up or down. Reasons may include:

- Actions of investors
- Business conditions
- Government action
- Economic indicators
- International events and conditions

FACTORS THAT AFFECT PRICE

Few investors can consistently predict the ups and downs of the market or even of an individual investment. Yet, investors who are aware of the factors that affect market price are more likely to make sound investment decisions than are less well informed investors.

Actions of investors. Individual investors, institutional investors and mutual fund managers all affect the price by their actions in buying or selling. For example, when large numbers of individual investors believe that the nation is heading into a recession, their actions can influence the health of the market.

Business conditions. Profits earned, an increase in volume of sales, and expansion of plants of the corporation all affect investor interest and consequently price. Health of the economy, business conditions in general, and the business cycle also affect the price.

Government actions. Government decisions regarding issues such as interest rates, taxes, trade policy and budget deficits have an impact on prices.

Economic indicators. Published figures on personal income levels, consumer spending patterns, business inventories, and interest rates all affect one industry or another and subsequently stock, bond and futures prices.

International events and conditions. Events around the world, such as changes in the currency exchange rates, trade barriers and restrictions, or wars or civil strife affect both securities and futures market prices.

Because investment markets have international linkages, investments can be purchased around the clock. When the market opens in New York, the Tokyo market has just closed for the day and the London market is half way through its trading day. When prices go down in Japan there often is a ripple effect that sends British and U.S. markets down.

Summary Activity

Overhead 2-12

VARYING RETURNS ON DIFFERENT INVESTMENTS

Draw attention to historic returns on investments using the chart **Varying Returns on Different Investments.** Ask questions such as:

1. Over the past 65 years, what has been the compound annual rate of return on money invested in S & P 500 stocks? **(10.1%)**

2. If you had invested only in U.S. Treasury Bills over the past 65 years, what annual rate of return would you have earned? **(3.7%)**

3. Considering that the average annual rate of inflation over the past 65 years has been 3.1%, what actual rate of return would you have received on a 3.7% return investment? **(.6%)** On a 10.1% return? **(7%)**

4. If you had invested in S & P 500 Stocks in 1990 what would your annual rate of return have been? **(-3.2%)**

5. If you had invested in U.S. Treasury Bills in 1990 what would your annual rate of return have been? **(7.8%)**

6. What was the inflation rate in 1990? **(6.6%)**

Historically over time, stocks have outperformed bonds and treasury bills. The risks of loss are greater with stocks, however, and past records do not guarantee future performance.

Administer Unit Test and Discuss Answers

Test 2-13

UNIT TEST

SUMMARY

Key to Test

True or False

1. False
2. False
3. False
4. True
5. False
6. True

Multiple Choice

1. C
2. B

Short Answer

1. Two ways in which a business can raise capital besides reinvesting earnings:
   - issue stock
   - issue bonds

2. **Stock**
   - you own part of the company
   - you are entitled to part of the profits

   Bond
   - the company owes you money
   - you are paid a fixed interest rate

3. Factors that affect the price of securities include:
   - Corporate earnings, sales, growth potential, etc
   - General business conditions - health of the economy
   - Investor confidence in economy and in individual business firm
   - Government actions, such as tax policy, trade policy
   - Economic indicators, such as consumer spending, interest rates
   - International events and conditions such as war, currency exchange rates

4. Farmers have brokers sell futures contracts on farm commodities to avoid the financial risk that the price at a future date will be lower than the current price.

SELECTED RESOURCES

Teaching Guides

Educator's Guide to the Stock Market Game, Secondary School Edition, Board of Education of the City of New York, 1986. Available from the Securities Industry Association, 120 Broadway, New York, NY 10271.

Understanding Our Economy. (Section on the Stock Market) J. Weston Walch, Publisher, P.O. Box 658, Portland, Maine 04104-0658. 1989.

Pamphlets

Buying Options on Futures Contracts: A Guide to Their Uses and Risks, National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1988.

Glossary of Futures Terms, National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1990.

An Introduction to National Futures Association, National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1990.

How to Invest, A Guide for Buying Stocks, Bonds, and Mutual Funds, Standard and Poors Corporation, 25 Broadway, New York, NY 10004. 1986.

The Story Behind the Financial Integrity of U.S. Futures Markets, National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1987.

Taking Stock in Your Future, New York Stock Exchange, Inc., Educational Services, 11 Wall St., New York, NY 10005.

Understanding Opportunities and Risks in Futures Trading, National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1986.

The U.S. Securities Markets: How They Work, Their Role in the National Economy, Securities Industry Association, 120 Broadway, New York, NY 10271. 1986.

What Else Can Financial Statements Tell You? American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, NY 10036.

Media

For the Investor's Protection. Video. National Futures Association, 200 West Madison Street, Chicago, IL 60606. Toll-free number 1-800-676-4NFA. The story of self-regulation of the futures market. Describes how NFA helps assure high standards of responsibility and performance of persons who work in futures markets.

Go For the Gold. Video or filmstrip and cassette, teacher guide. Money Management Institute, Household International, 2700 Sanders Rd., Prospect Heights, IL 60070. 1985. An introduction to saving and investing for high school students. Provides basic understanding of financial products and services available to beginning investors.

The Joy of Stocks: Forbes Guide to the Stock Market. VHS Videotape, 104 minutes, 10 segments. MGM/UA Home Video, 1350 Avenue of the Americas, New York, NY 10019. $69. Segments:

1. Getting Started	4. Fundamentals	7. Major Shifts	10. Letters
2. Before You Buy	5. Technicals	8. Dividend Checklists	
3. Corporate Reports	6. Charts	9. Down the Road	

Where the World's Market Forces Converge, video or film. Chicago Board of Trade, 141 West Jackson Boulevard, Chicago, IL 60604.

RECENT GRADUATE BUYS COMPANY STOCK

BY ROBERT RISTAU, GAZETTE FEATURE WRITER

(Editor's Note: John Sylvester, a recent Central High School graduate, works at the local Checkerboard Pizzeria while he attends college. This newspaper article is about how John buys stock, becomes part-owner in the place where he works, and learns about investments in the process.)

John earns and spends. John bought a video-cassette of his favorite movie and paid for it with earnings from his part-time job at the Checkerboard Pizzeria. The pizzeria paid John out of money from the sales of pizzas which they prepared in their building and baked in their ovens. But where did the money come from to buy the building, ovens and other equipment that the pizzeria uses?

Corporation issues stock. The Pizzeria is a corporation with many owners; everyone who owns even one share of stock in the company is an owner. All of the owners share in the profits or loss and growth of the business according to the proportion of stock they own.

A few years after John's employer incorporated and issued stock, John wanted to purchase 100 shares, called a "round lot." The Pizzeria has 100,000 shares of stock outstanding, so John owns 1/1000th of the business.

When John's boss decided that his business should become a corporation, he had to apply to the state for a charter. His charter gave the company legal status, and the company had to have officers. John's boss became the president and chairman of the board of the corporation.

To raise the amount of money needed to buy the building and equipment, the corporation received approval from the Securities and Exchange Commission to issue the stock.

Lawyers and accountants wrote a detailed report about the company, its business record, and the risks associated with purchasing the stock. People who are interested in buying this stock read the report, called a prospectus, to find information about the company and the stock issue.

The corporation sold the 100,000 shares of stock to an investment bank on the primary market for $300,000 - or $3 per share. The investment banker then put the stock on the regular stock market, where John and others could buy smaller amounts of stock, at $3.25 per share. After being on the market for awhile, the stock was selling for over $6 a share. John liked the business and believed it would grow and earn good profits, so he decided to take $600 of his savings and buy 100 shares.

John buys stock. John had to go to a brokerage firm, a business that employs brokers who specialize in selling and buying stock. He could have gone to the bank where he had his savings account, or to a financial planner that his parents worked with, but he had a friend from college who now was a broker and he wanted to do business with her.

The broker used her computer terminal to look up information on the stock John was interested in. She also found out the current selling price. It was selling at that time on that day for $5.75 per share, so John had the broker place a buy order for 100 shares in his name.

He was impressed with how fast the deal was made. Less than a minute later he was informed that he now owned 100 shares of Checkerboard Pizza, Inc. He commented about how fast the sale was completed. He also learned that he had to pay a sales charge, called a commission, for the sale.

This was John's first stock purchase. He asked his broker friend some questions about what had taken place. She explained that the stock John bought was listed in the Over-the Counter market because the business was small and was just establishing itself. She had telephoned the

order to a broker who owned Checkerboard Pizza Securities and announced that someone wanted to buy 100 shares. An offer was made to sell 100 shares at $5.75 and so the transaction was made. If no one had been willing to sell 100 shares, or if the price had been too high, no sale would have been made. She explained to John that it is like being at an auction - the people who want to sell have their price in mind, and the buyers have a price they want to pay. It is a matter of the two parties getting together on a mutually agreeable price, and they do that through their brokers.

Stock prices. John wondered why the stock was selling for less than $6 per share; he had heard that it was up to $6 last week. The broker explained to John that prices of stocks change for a variety of reasons. That particular day the entire market, that is, the total of all shares being bought and sold, was down in price. She called it a market movement or adjustment. She also explained, however, that some stocks will sell for a higher price even when overall market prices are down; and some will sell for lower prices even when general market prices are up. She said that in reality we have a market of individual stocks and not just one stock market. Another factor that affects the price of an individual stock is how well or poorly the business is doing. She told John about the financial reports that businesses issue. John, as one of the owners of Checkerboard Pizza, Inc., will receive an annual financial report from the firm.

Newspapers list stock prices. Because John worked in one of the pizzerias that the company operated he knew something about the business. But how could he keep up with how the stock was actually doing? His broker friend showed him how stock prices are reported in the business section of newspapers every day. The listings show how many shares of stock were traded, what prices were paid, and other information that John had not noticed before.

John learned that once the company sells its stock on the market it does not benefit directly from increases in the price of its shares. But individuals, such as John, do benefit. Indirectly the business would benefit, though, because if later it needed more financial capital and wanted to issue another block of stock, people would be more willing to buy it if the previous issue did well. John learned that people's confidence in a company made a big difference in the price of its stock.

John's account. The broker established an account in John's name so that he could easily buy and sell stock in the future. John had heard about stock certificates that indicate how much stock a person owns. He would not receive one, but he knew that he owned the stock because the brokerage house sent him a statement each month showing how much stock he owned and what it was worth at the end of the month. The broker said that his stock was held in "street name", meaning that the brokerage house would hold the certificate and he would not have to worry about loss or theft. If John should decide to sell his stock, he would simply call his broker. The transaction could be completed without him having to come to the office or sign any papers.

John hoped that the stock would increase in value, and he planned to watch the newspaper listings to see if that happened. Also, if the company earned a profit and decided to share it with the owners of stock, he would get a dividend. The dividend would be added to the value of his account at the brokerage house.

John was fascinated with the investment process and the stock market. What a way for businesses to get money they need and let people have an opportunity to buy and sell that stock! He was really participating in the business world and the economy. He wants his money to grow over the years, and he feels that having some money invested in the stock market is appropriate for him. In addition to dividends he might receive, he hopes to sell the stock in the future for quite a bit more than he paid for it.

Insider trading. He had wondered, however, if officers of the company could take advantage of other investors and make trades of this stock with information which they have but he and others did not have. His broker friend assured him that such would not be the case. Dealing in stocks with information that is not available to others is called "insider trading," and is illegal. In fact, insider trading is a serious crime.

Regulation and Investor Protection. John remembered that his broker friend had mentioned that a government agency, the Securities and Exchange Commission, required prospectuses to be accurate. The securities markets are highly regulated. The Federal Reserve Board and Congress are responsible for laws and regulations which affect the operation of the market.

John's broker mentioned the North American Securities Administrators Association, an organization of state administrators who are charged with enforcing securities laws and protecting the public from fraudulent investments. John knew, however, that investment scams are common and that individual investors have some responsibility to protect themselves by avoiding scams.

What affects stock prices. John learned about stocks, brokers, and the stock market, but there is much more to know. Stock prices are affected by the general health of the economy and by business cycles, and some stocks are affected more than others. Some investors look for cyclical stocks, such as housing and automobiles, while others avoid them. Personal income levels, consumer spending patterns, business inventories and orders for goods, and interest rates all have an effect on the price of stocks. John wondered what might happen to his company and to the value of his stock if people in the United States stopped eating out so much or if someone came up with a substitute for pizza. Even international developments, such as changes in foreign exchange rates, trade barriers and restrictions, and conflicts in foreign countries can affect stock prices.

John will invest again. John felt good about being an investor. He had joined more than 50 million other citizens of the United States who own stock in corporations. The number of young investors, around 21 years of age, is increasing. Ownership of land, buildings, and equipment is a fundamental characteristic of our economy, and purchasing stock is one way that many acquire that ownership. About six million people have money in their pension or union funds invested in stock.

John also realized that the stock market is a money management tool for those who know how to use it. The money John invests in a corporation very likely will earn more than he would receive from a basic savings plan, although he will keep a savings plan at the bank, too. It makes good sense for John to invest part of his savings.

If John invests again, he may buy more shares of Checkerboard Pizza, Inc., or he may select other stocks. One way he can become involved with a number of other companies is to buy into a mutual fund. With a mutual fund, investors pool their money and a fund manager makes decisions on what stocks to buy and when to sell them. Those who own shares of the mutual fund can benefit from the work of an expert on stocks and investments. The diversification of stocks through a mutual fund also spreads risk. John thought he might invest in a mutual fund next time.

When John went to work the next day he thought, "I own part of this company," so somehow it seemed easier to be a productive employee, knowing that he would benefit from the success of the company.

Name _____ Date _____

RECENT GRADUATE BUYS COMPANY STOCK

Read the article "Recent Graduate Buys Company Stock" and answer the following questions:

1. Why did John buy stock in Checkerboard Pizzeria?

2. Why did Checkerboard Pizzeria issue stock?

3. What kinds of information did the prospectus for Checkerboard Pizzeria's new stock issue include?

4. What government agency approved the company's request to issue stock?

5. Describe the process John and his broker used to buy the stock.

6. What factors might affect the price of Checkerboard stock?

7. What is insider trading? Why is it illegal?

8. Why would John want to consider investing in a mutual fund in the future?

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Name _____ Date _____

WATCH THE DOW

AND CONSIDER WHY THE UPS AND DOWNS

Most people watch stock averages whether they own stock or not. The best known in the United States is the Dow-Jones Average of Industrial Stocks. It is a complicated average of thirty major stocks.

The Dow serves as a kind of economic barometer. It moves up and down as the market value of its thirty stocks fluctuates in response to business and other conditions in the nation and the world.

Watch the Dow for 20 days and complete the chart.

Day	Day's High	Day's Low	Closing Average	Changes From Previous Day's Close	News That May Have Affected Market Price
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					

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VARYING RETURNS ON DIFFERENT INVESTMENTS

	Past 65 Years	Past 5 Years	1990 Return	Best Year	Worst Year	$10 Invested in 1926 Would Be Worth . . .	$10 Invested in 1986 Would Be Worth . . .
Stocks (S&P 500)	10.1%	13.1%	-3.2%	54.0%	-43.3%	$5,174.99	$18.54
Long-term U.S. bonds	4.5	10.8	6.2	40.4	-9.2	179.93	16.66
Treasury bills	3.7	6.8	7.8	14.7	0.0	104.30	13.91
Equal mix of stocks, bonds & T-bills	6.6	10.4	3.6	24.1	-15.9	643.70	16.30
Price Inflation	3.1%	4.2%	6.6%				

Investment results are total returns: price changes of securities, dividends and interest income. Actual spending power would be reduced by taxes and inflation.

Source: Ibbotson Associates, Inc., Chicago, August 1991

Name _____ Date _____

HOW FINANCIAL MARKETS WORK

UNIT 2 TEST

True or False

Read each statement carefully and mark in the blank a T for True or F for False.

_____ 1. About five percent of all individuals in the United States own stock in corporations.

_____ 2. When a company issues new stock it creates additional debt.

_____ 3. The Securities and Exchange Commission is a self-regulatory body monitored by the New York Stock Exchange.

_____ 4. People who are employed in financial markets are prohibited by law from using investment information that is known only to them.

_____ 5. One purpose of a futures contract is to provide investment capital for farmers.

_____ 6. Trading in futures markets is risky and inappropriate for beginning investors.

Multiple Choice

Circle the letter which best completes the phrase or answers the question correctly.

1. If a business firm wants to raise capital but not create debt, it would:
   A. borrow money from a commercial bank
   B. float a bond issue
   C. issue common stock
   D. borrow money from the government

2. Select the securities market that deals with low priced stocks of small and new corporations.
   A. NYSE
   B. OTC
   C. AMEX

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Short Answer

1. Identify two ways in which a business can raise capital.

2. Explain the basic difference between owning a share of stock and owning a bond.

3. List five factors which affect the price of securities.

4. Explain why Farmer Jones might have his broker sell a futures contract on next October's soybean harvest.

UNIT 3

INVESTMENT CHOICES TOPIC OUTLINE

3•1 **WHY PEOPLE SAVE AND INVEST**

3•2 **TYPES OF SAVINGS AND INVESTMENTS**

Overhead	• Savings Options
Worksheet	• Comparing Savings Places
Overheads	• Investment Options
	• Pyramid of Investment Risk
Worksheet	• Comparing Mutual Funds

3•6 **SELECTING SAVINGS AND INVESTMENTS**

Worksheet	• Readings on Investments
Overheads	• Yield of Taxable and Tax-Exempt Investments
	• Tax-Deferred Savings Grow Faster than Taxable Savings

3•12 **TIME VALUE OF MONEY**

Handout	• How Time Affects the Value of Money
Worksheet	• Time Value of Money
Overheads	• Future Value of $1,000 Single Deposit
	• Future Value of $25 Deposited Monthly
	• Future Value of $100 Deposited Monthly
	• Monthly Deposit for Future Goals
Worksheet	• Rule of 72

3•14 **SUMMARY**

Test

Key to Test

3•15 **SELECTED RESOURCES**

UNIT 3

Unit Objectives

- Discuss reasons to save and places to accumulate savings.
- Identify and describe common investment options.
- List factors to consider when selecting savings and investments.
- Describe the "time value of money" concept and demonstrate its usefulness for investors.

INVESTMENT CHOICES

Most people have to work for their money. And once they have earned it, they have an important choice to make:

- spend it all, or
- set aside some money so it can work for them.

Whether your income is small or large, setting aside some of it for investments requires self-discipline. You decide to postpone buying certain things you'd like to have now in order to enjoy the longer term benefits of having your money work for you through savings and investments.

The current savings rate of households in the United States on average is four to five percent of income after taxes. Teenagers and adults who begin the savings habit early are more likely to have money available for things they want in the future.

Making your money work for you is what saving and investing is all about. You can measure your investment success by keeping track of how well you make your money work. Is your net worth increasing over time? Is inflation robbing you of the buying power of your savings dollars, or are your investment earnings staying ahead of the inflation rate?

Introduction: Videos

View and discuss one of the following videos: ***Go for the Gold,*** *from Household International* (appropriate for secondary school).

See Selected Resources 3-15.

WHY PEOPLE SAVE AND INVEST

There are many reasons people save and invest. One reason is financial security. A fund for emergencies helps people cope with unexpected events such as illness, unemployment and accidents. Money set aside can be a source of income for people who are retired.

Saving and investing is also used to reach financial goals such as a new car, a college education, a trip or a down payment on a house. You can avoid paying interest for borrowed money.

Another reason people save and invest is to earn more money. A sum of money can be saved and later be invested in long-term securities that produce higher yields. For example, some mutual funds and government securities require a minimum investment of $1,000 or more.

Overhead 3-17

SAVINGS OPTIONS

Discuss:

- Yield range
- Financial risk
- Inflation hedge
- Liquidity
- Invite a local banker to explain factors to consider when selecting a regular savings account, CDs and money market funds.

TYPES OF SAVINGS AND INVESTMENTS

Places to Accumulate Savings

The rate of return and risk for savings are often lower than for other forms of investment. Return is the income from an investment. Risk is the uncertainty that you will get the return expected. Savings are also usually more liquid. That is, you can quickly and easily convert your investment to cash.

Interest-bearing checking and savings accounts are offered by banks, credit unions, and savings and loans institutions. It pays to shop for the best rates, as interest rates compounding frequencies and services vary widely among financial institutions. The effective yield takes into consideration the effect of interest calculation variables such as compounding frequencies.

If the financial institution where you have a checking or savings account is insured by a fund of the **Federal Deposit Insurance Corporation** or the **National Credit Union Administration,** the account is insured up to $100,000 by the federal government.

Certificates of Deposit, often referred to as CDs, are purchased for specific amounts of money at a fixed rate of interest for a specific amount of time. Small CDs may be purchased for $500 but most are for $1,000, $5,000, or $10,000.

You can buy a CD for as little time as seven days, or for as long as several years. The longer time usually carries a higher interest rate. If you cash in the CD before the specified time, you will pay interest penalties. CDs are insured by the FDIC if the financial institution where you purchase the CD is a member.

U.S. Savings Bonds come in two varieties: Series EE and Series HH. Available at most banks and through payroll deduction, EE bonds are purchased for 50 percent of their face value which is the amount the bond is worth when it matures.

The minimum purchase is $25 for a $50 bond that matures in the future, from eight to twelve years. The rate is keyed to a variable interest rate based on market interest rates. Bonds cashed before five years are penalized with an interest rate which is lower than the market rate.

HH bonds are purchased from a Federal Reserve Bank or through the Treasury at face value. You cannot buy HH bonds with cash. They can be acquired by trading a minimum of $500 worth of EE bonds or by reinvesting a Series H Bond that has matured.

Series HH bonds mature in 10 years with interest paid semi-annually via check or an electronic funds transfer to the bondholder's bank account.

There are no sales charges for either the EE or HH bonds. Interest income earned from both is exempt from state and local taxes and can be deferred from federal income tax until the money is actually received. Some parents purchase EE bonds

Worksheet 3-18

COMPARING SAVINGS PLACES

Have students compare savings places within one local financial institution and among two or more financial institutions. Consider:

- Annual interest rate
- Effective yield
- Safety
- Minimum initial deposit
- Date to maturity
- Penalty for early withdrawal
- Service charges, fees
- Convenience
- Courteous service

Overhead 3-19

INVESTMENT OPTIONS

Compare:

- Yield range
- Financial risk
- Inflation hedge
- Liquidity among investment options

Discuss reasons why a person might choose higher risk investments over lower risk savings options.

Overhead 3-20

PYRAMID OF INVESTMENT RISK

Discuss the components of a financial foundation.

As a general rule, investments located near the top of the pyramid have greater risk and greater potential return. Example questions:

1. Why are U.S. EE savings bonds less risky than junk bonds?
2. Why would anyone ever invest in high-risk investments?

to save for their children's education. For taxpayers within certain income limits, EE bond income is exempt from federal taxation when used to meet college expenses.

U.S. Treasury Securities include Treasury bills, notes and bonds. These can be purchased through financial institutions for a fee or at a branch of the Federal Reserve Bank with no added cost. These are usually sold in multiples of $1,000, $5,000 or $10,000.

Cash Value Life Insurance includes a forced savings element which adds to the cost of life insurance. The build-up of cash is tax deferred and can be borrowed from the policy. The primary purpose of insurance, however, is protection against risk of loss rather than the accumulation of savings.

Insurance policies are often sold as savings vehicles, but many have high front-end commissions and low cash value in the early years, thereby diluting both the risk protection and the savings performance of the money invested.

Higher Risk Investments

Common types of higher risk investments include stocks, corporate and municipal bonds, mutual funds, real estate, collectibles and futures contracts. The decision about which investment to choose is influenced by factors such as yield, risk, and liquidity.

Investments produce current income through the payment of interest, dividends or rent payments. Growth or appreciation in the value of an investment is known as capital gains.

Higher risk investment choices for current income include:

- corporate and municipal bonds
- high-quality corporate stock with a history of steady earnings
- telephone, gas or electrical utility stocks
- mutual funds that focus on current income

Higher risk investment choices for capital growth include:

- common stocks in growth oriented companies
- new or small companies that have good future potential
- mutual funds that focus on capital growth
- real estate in growth areas

Stocks. When you own shares of stock you become part owner of a company. If the company does well, the value of your stock should go up over time. If the company does not do well, the value of your investment will decrease. Companies distribute a portion of their profits to shareholders as dividends.

Companies issue two types of stock, common and preferred. Common stock is the basic form of ownership in a company. People who hold common stock have a claim on the assets of a firm after those of preferred stockholders and bondholders.

Preferred stock is ownership in a company which has a claim on the assets and earnings of a firm before those of common stockholders but after bondholders. The safety of the principal of preferred stock is greater than that of common stock.

Selecting individual stocks requires time, effort and knowledge. The objective of buying stocks is to choose those that will increase in value over time. The friendly advice, "Buy low and sell high" is easier said than done. Selecting stocks is both an art and a science.

Bonds. When you own a bond you have loaned money to a company or a governmental unit. In return, the borrower promised to repay the amount borrowed plus interest. Corporate bonds are issued by publicly owned companies, while municipal bonds are issued by state or local governments.

The price of a bond will fluctuate as interest rates go up or down. If you hold the bond to maturity you will receive an amount stated on the bond known as the face value. For example, if you buy five corporate bonds at $1,000 each and the bonds mature in 10 years, even if the value of the bond changes over the period of time you hold it, the bonds will be worth a total of $5,000 at the time of maturity. In addition, the borrower may promise to pay you an interest payment twice a year for 10 years. The declared interest of the bond is called the coupon rate.

Municipal bonds are interest-bearing, long-term bonds issued by state and local governments. They are used to finance schools, roads, hospitals and libraries. Investors receive a lower rate of return in exchange for having the income exempt from federal income tax. In addition to the federal tax exemption, some states exempt income from municipal bonds from state income tax as well.

Junk bonds is a slang term for speculative, high-risk, high-interest rate corporate or municipal bonds. The default rate is much higher on junk bonds than on higher quality bonds. Junk bonds may be issued by companies of little financial strength.

The risk in purchasing corporate bonds is that the corporation may not be able to pay interest or return your principal at maturity.

Mutual Funds. A mutual fund invests the pooled money of its shareholders in various types of investments. The funds manager buys and sells securities for the fund's shareholders. Mutual funds are not risk free. Their values rise and fall along with the securities in the fund.

Benefits of mutual funds for the beginning investor can include:
- diversification
- professional management
- relatively low cost shares
- liquidity and convenience (easy to buy and sell shares)

Each mutual fund has an objective which determines the types of securities it contains. The fund objectives are stated clearly in the prospectus which is the legal document describing the fund.

Worksheet 3-21

COMPARING MUTUAL FUNDS

Have students compare three or more mutual funds by:
- Type of fund
- Objective of fund
- Current rate of return
- Yield range (three to five years)
- Fees
- Operating expenses
- Level of risk

This information can be found in the fund prospectus. Financial magazines such as ***Money*** and ***Kiplinger's Personal Finance*** may provide this information.

For example, the fund objective may be "growth and capital preservation." This fund might own high quality stocks in large well known companies.

Fund Objective	Likely Investment Holdings
Income	bonds and/or preferred stock
Income and safety	government bonds or preferred stock
Moderate growth	preferred and common stock
Aggressive growth	stock in small, growth companies

More than 3,400 different mutual funds are available. The investor should learn the objective of the fund, what securities the fund owns, the level of risk, and its earnings record as compared to similar funds.

All mutual funds have annual management fees. Some funds have additional fees when shares are bought and sold.

- No-load funds are purchased directly from the fund and do not charge a purchase fee.
- Load funds may be purchased through brokers or directly from the investment company. They have an up-front or back-end fee of two to eight percent depending on the fund.

A redemption fee is levied when shares are sold. The fund prospectus must disclose all fees and costs related to the funds. The one, five and 10-year earnings record, after fees, must be revealed.

The shares in a mutual fund are priced by dividing the value of the fund by the number of shares owned. As the value of the securities in the funds goes up or down the value of the shares changes accordingly.

Many mutual funds are part of a family of funds. A financial service company may offer a number of funds with different objectives, and the investor may switch from one fund to another within the same family at little or no expense. For example, if you own a bond fund and you believe stocks are going to do well, you could switch your shares into the stock funds within the same family of funds.

Real estate. Home ownership is an investment. Like other investments, homes can appreciate in value and serve as a hedge against inflation. Houses can also drop in value and fail to keep pace with inflation.

Direct ownership of rental units and commercial buildings takes considerable time, skill, knowledge, and risk tolerance on the part of the individual owner. Purchasing a rental property, for example, without full knowledge and experience could cause losses far exceeding the original investment.

Another way to invest in real estate is through the purchase of limited partnerships. The partnership is composed of a general partner who buys and manages the investments, and limited partners who invest in the project and whose participation is limited to the profits or losses of the venture. Limited real estate partnerships are considered high risk investments and are not recommended for the novice investor.

Collectibles. Antiques, stamps, precious metals or gems pay no interest or dividends and depend on an increase in value over time for the return on the investment. The rewards as well as the losses of owning collectibles can be great. Financial advisors caution against collectibles because there is no regulated marketplace, liquidity can be a problem, information regarding pricing is almost non-existent, and fraud is rampant in markets for coins, gems, synthetic gems and precious metals.

Futures Contracts. A futures contract is a commitment to buy or sell a specific amount of a commodity at a specific future date and price. This speculative investment is only for knowledgeable investors who are willing to take high risk. Futures should never be more than a small portion of a total investment portfolio.

Futures contracts deal in products ranging from corn, soybeans, wheat and cattle to gold, crude oil, Japanese yen and U.S. Treasury bonds. The investor contracts to buy or sell these commodities at a future date, speculating on the value of the commodity on that date. A very small percentage of investors speculate in futures contracts. Losses are more frequent than gains. Because of their risk management value, futures markets are among the fastest growing of all financial markets, both in the U.S. and abroad.

SELECTING SAVINGS AND INVESTMENTS

Factors to consider when selecting savings and investments include liquidity, risk, return, inflation, diversification, taxes and stage in the life cycle.

Liquidity

How quickly will you need your money? Savings held in bank accounts and money market funds are appropriate for short term needs of a year or less because they are liquid. Investments such as stocks and bonds are suitable for longer term goals as they are less liquid. Keep in mind that liquidity is the speed and ease with which an asset can be converted into cash.

Savings vehicles such as certificates of deposit can not be converted into cash prior to the maturity date without penalty. While stocks and bonds can be sold at any time, if an investor is forced to sell when the market is down, there can be a loss of the original money invested.

Risk

As a general rule, the greater the promised return the greater the risk. Risk tolerance is a person's ability to ride out the ups and downs of the market without panicking when the value of investments go down. Risk tolerances vary from person to person and at different stages in the life cycle. Young adults with growing income potential may take greater investment risks than people who are approaching retirement.

Worksheet 3-22

READINGS ON INVESTMENTS

Have students read and report on current newspaper and magazine articles on investment market conditions. Topics could include:

- Interest rates
- Business failures
- Price of investments
- Political decisions and investment risk
- Investment fraud
- Diversification

How much should a person expect to earn on an investment? Average investment return over time has been the inflation rate plus three percent. For example, if the current inflation rate is five percent, an investor might expect an average return on an investment of about eight percent. Some investments will yield less, others more.

If you are promised a return on an investment that is greater than three percent over the inflation rate, be alert to high risk and possible fraud. The return may be too good to be true. A scam artist may promise an unrealistically high return just to get your money.

People who don't sleep well at night when the principal value of their investment goes down should select savings and investments with less risk. On the other hand, investments that guarantee the safety of principal may not maintain purchasing power in times of high inflation.

Individuals who can ride out market ups and downs without panic can comfortably put their money in investments that pay above average returns. These investments may maintain purchasing power over time, but can fluctuate wildly in the short term. There are six major types of investment risk:

- **Interest rate risk** is the risk that the value of an investment will decrease due to a rise in interest rates. If you lock yourself into a long term, fixed return investment and interest rates go up, you lose the advantage of higher returns. The value of a fixed return investment decreases when interest rates increase and increases when interest rates decrease.

- **Business failure risk** is the risk that the business will fail and the investment will be worthless, or that the business will be less profitable than expected. How well will the business do in both good and bad economic times?

- **Market price risk** is the risk that the price on an investment will go down. Many factors influence whether the price of an investment will go up or down. Few investors can consistently predict the ups and downs of the market. Investors may experience a loss if they must sell when the market price is down.

- **Inflation risk** is the risk that the financial return on an investment will lose purchasing power due to a general rise in prices of goods and services. Investment returns must exceed the rate of inflation in order to increase purchasing power.

- **Political risk** is the risk that government actions such as trade restrictions or increased taxes will negatively affect business profits and investment returns.

- **Fraud risk** is the risk that the investment is designed to deceive and misrepresent facts. In every case of investment fraud, the seller wins while the investor loses.

Return

The basic idea of investing is to commit money today with the expectation of a financial return in the future. The return can come from earnings and from growth.

Earnings on your investment can be in the form of interest, dividends or rent payments. You will recall that interest is the payment received in exchange for the loan of money. A dividend is payment to stockholders from the earnings of a corporation. Rent is payment received in return for the use of property.

Growth comes from price appreciation on the investment that is sold for more than you paid for it. Appreciation, or capital gain, is income realized when you sell property or securities for more than the purchase. Of course you may have to sell for less than you paid, and have a capital loss.

For example, say you buy 100 shares of a no-load stock mutual fund at $20 a share for a total of $2,000. If during the year the fund pays dividends totaling 10 cents a share, your income from the investment would be $100. If you sold the shares at the end of the year for $22 a share, you would have a profit of $2 a share or $200. Your return of earnings plus appreciation would be $300. You had a very good year. This example ignored commissions and fees however, and you ran the risk of having to sell your shares for less than the $20 you paid.

Computer Exercise

Demonstrate investment calculations using computer software. ***Crystal Ball*** *software, from Learning Seed,* has exercises on:

- How fast do savings grow?
- Can I really make money in stocks?
- Inflation — the future?
- How can I pile up one million dollars?
- How long does it take to double my money?

See Selected Resources 3-16.

Inflation

Inflation is an important factor for investors to consider because it reduces the purchasing power of money. The value of money is measured in the amount of goods and services it will purchase, and inflation is a general rise in the price of goods and services.

In inflationary times, financial return on investments may not keep pace with the rate of inflation, and purchasing power is lost. For example, you have $1,000 in a bank savings account earning five percent interest, or $50 a year. Unfortunately, the inflation rate this year was six percent, so it will cost you $1,060 to buy the same products you could have purchased last year for $1,000. Subtract the $50 you earned from the $60 you lost to inflation and you lost $10 in purchasing power.

Historically, corporate stocks and real estate have been good investments in inflationary times, while bonds and other fixed return investments have lagged behind. People on fixed incomes such as retirees are hurt most by inflation. Social security payments are indexed to inflation to help these people cope with the rising cost of goods and services.

The desire to have investment returns keep up with inflation should be balanced against the potential loss of principal in high yield but risky investments. A suggested guideline is to seek investment returns of the inflation rate plus three percent. Promised returns above this amount usually carry high risk.

Diversification

The process of reducing risk by spreading money among various types of investments is diversification. Because certain investments perform better than others in certain economic conditions, an investor can spread the risk by following the advice, "Don't put all your eggs in one basket." An investor's "basket" of

securities and investments known as a portfolio can consist of investment options with varied risk-return characteristics.

When interest rates are up, for example, stock prices tend to go down and bond prices are up. When interest rates are down, stock prices tend to rise and bond prices go down. One industry can be down while other industries are doing well. The auto business can be down, for example, while the housing industry prospers.

You have $10,000 to invest. You decide to invest 25 percent in short-term certificates of deposit, 45 percent in a variety of common stocks, and 30 percent in bond mutual funds. As conditions change, these percentages are adjusted.

Putting money in a variety of investments lessens the risk of loss due to any one investment performing poorly. Investors who review and adjust their investment portfolio regularly are likely to earn more over time than those who do not.

Taxes

Money will grow faster in a tax-advantaged savings or investment plan because you earn money on the investment that would otherwise have been paid in taxes. Tax advantaged investments include tax-exempt and tax-deferred investments. Tax-exempt and tax deferred investments are not necessarily safe investments. Some municipal bonds, for example, carry high risk and are not appropriate for all investors.

Tax-exempt investment earnings are not subject to income tax. As noted earlier, the interest on U.S. Series EE Savings Bonds is exempt from state and local taxes. If the bonds are used to pay college tuition, the interest is also exempt from federal taxes for taxpayers who meet certain income limits.

The most common way to get tax exempt income is to invest in municipal bonds. Exempt from federal tax, the interest on municipal bonds is sometimes exempt from state income tax as well.

Earnings on the sale of a house can also be exempt from income taxes. Current federal tax law allows households to exclude from their income the money earned on the sale of a home if they invest in a home of equal or greater value within 24 months. Individuals over age 55 are allowed a one-time capital gains exclusion of up to $125,000 even if they do not reinvest in another home.

Tax-deferred investments are those that have earnings that will not be taxed until the money is taken out of the investment. Examples of tax-deferred investments are U.S. Series EE Savings Bonds, and retirement plans such as Individual Retirement Accounts (IRAs) and employer savings plans known as 401-K plans.

For example, if you accumulate $15,000 in a tax-deferred savings plan at work and leave it there for 20 years earning 10 percent interest, the $15,000 will be worth $100,912. If you place the money in a taxable savings plan, the same $15,000 would be worth only $60,254. The difference is over $40,000.

Overhead 3-23

YIELD OF TAXABLE AND TAX-EXEMPT INVESTMENTS

Tax-exempt investment earnings are not subject to income tax, but they are not necessarily safe investments.

1. If an investor in the 15% tax bracket invests in a tax-exempt bond paying 6%, what yield would be required on a taxable investment in order to earn the same income? **(7%)**

2. If the investor were in the 33% tax bracket, what yield would be required? **(9%)**

Overhead 3-24

TAX-DEFERRED SAVINGS GROW FASTER THAN TAXABLE SAVINGS

Examples of tax-deferred savings are U.S. Series EE savings bonds and Individual Retirement Accounts (IRAs).

In a taxable savings account, you would have paid taxes on the earnings each year thus reducing the amount of money available to earn additional interest. Earnings from the tax-deferred savings plan will be taxed when the money is withdrawn from the account, but in the meantime it grows at a much more rapid rate.

It is important to participate in employee savings and investment plans sponsored by your employer. In some cases employers will match the amount of money put in by the employee. If employees do not contribute, their employers may not as well, which is like throwing money away.

Workers who are not covered by an employer retirement plan, or whose income is below certain limits may invest up to $2,000 each year in a tax deferred IRA and deduct the $2,000 from current taxable income.

All working Americans, regardless of income may make annual contributions of up to $2,000 in an IRA. Even though some may not be eligible for the deduction from current taxable income, earnings will be tax deferred for all.

Stages in the Life Cycle

As people move through the stages of the life cycle, their financial goals and investment strategies will change. Investments that are appropriate for a young couple with small children may be inappropriate for a single person approaching retirement.

The following suggestions illustrate possible investment choices for people at various life stages. Ultimately, each person must make decisions and take action in light of unique household situations and current economic conditions.

Life-Stage Interviews
Suggest that students interview adults about good or bad investment experiences at various stages in the life cycle. Discuss the learning that can be gained from each experience.

Life Stage: Young single adult
Goals: Emergency fund, car, travel

Deposit money each payday into an interest bearing savings account at the bank or credit union. To remove the temptation to spend it before you get to the bank, consider automatic payroll deduction.

Save money for relatively short term goals in a money market mutual fund or insured certificates of deposit, or a diversified mutual fund whose goal is safety as well as growth.

Invest some of your savings in aggressive long term growth investments such as common stock in new companies with good potential. You have the luxury of time to let your money work for you.

Life Stage: Two-income household with baby
Goals: Better housing, money for future goals

After you have an emergency fund equal to three times monthly expenses in an insured savings account and adequate life insurance protection, put some of your savings into low and moderate risk investments to stay ahead of inflation.

Examples of low risk investments are money market mutual funds, balanced mutual funds that have both bonds and conservative stock investments, and

insured certificates of deposit. Moderate-risk investments include common stock and corporate bonds.

Buying a home can be a good investment, depending on its location and the local housing market when you buy and sell.

Life Stage: Married couple, school-age children
Goals: Education fund, family travel

After you have an adequate emergency fund and conservative investments, put some of your savings into growth-oriented investments that pay little or no current income, but have a chance of keeping ahead of inflation. Examples are high-grade common stocks and growth-oriented mutual funds.

Aggressive growth funds should be used only if you are comfortable with higher risk. These funds invest in companies with high potential of both success and failure. Stocks in this category can yield large returns in the long run, but the risk of loss of principal is great.

Life Stage: Single parent with teenagers
Goals: Meet college bills, build future security

Draw upon previous savings and investments, if available, to meet increased educational expenses not covered by scholarships, student employment or loans.

When possible, continue to put money into company sponsored savings and retirement plans. These tax advantaged savings plans will not only save tax dollars but will help assure financial security in retirement.

Life Stage: Middle-aged couple with adult children
Goals: Savings for retirement

Fine tune your investment portfolio in keeping with your financial goals. Hold some of your money in conservative investments such as high quality bonds and certificates of deposit. Consider growth-oriented investments that will appreciate over time and stay ahead of inflation. Only the affluent can afford the gamble of high-risk securities as they approach retirement.

Consider tax advantaged investments such as municipal bonds. Down-sizing allows you to take advantage of the one-time capital gains tax exemption on your home after age 55.

Life Stage: Retired persons
Goals: Maximize income, preserve principal

Select income-oriented mutual funds, utility stocks, insured certificates of deposit, preferred stocks, conservative blue-chip common stock, government bonds, treasury bills and investment grade corporate bonds.

Monitor income needs and investment yields. To balance loss of purchasing power, consider investing a small percentage of funds in growth-oriented common stocks or stock mutual funds.

Computer Exercise

Demonstrate investment calculations using computer software. ***Financial Cookbook*** *software, from Southwestern Publishing,* has exercises on:

- Single savings deposits
- Monthly savings deposits
- Deposit needed for future purchase
- Monthly deposit for future purchase
- Earning interest on T-bills
- Earning with long-term investments

See Selected Resources 3-16.

Handout 3-25

HOW TIME AFFECTS THE VALUE OF MONEY

Illustrate the advantage of beginning an investment plan early in life.

- Investors A and B are each 25 years old. Investor A invests $2,000 each year for 10 years beginning at age 25. (Total contribution: $20,000)
- Investor B waits 10 years, then invests $2,000 each year for 31 years. (Total contribution: $62,000)

At retirement age 65, Investor A has earned $234,000 more than Investor B.

Worksheet 3-26

TIME VALUE OF MONEY

Answer Key:

1. $20,000
2. $33,846
3. $62,000
4. $545,844
5. $352,427
6. $525,344
7. $290,427
8. The time value of money is the growth of money over time as a result of investment earnings. As shown in this example, investments made early in life have a greater pay-off than those made later in life.

TIME VALUE OF MONEY

The old saying that "time is money" certainly applies to everyday decisions people make about whether to spend or save money and how much to save to meet specific goals. Factors that affect the future value of money include:

- amount of money invested
- rate of return or yield
- length of time the money is invested
- rate of inflation

To explore the impact of time on the future value of an investment, consider two investors who are both age 25. Investor A regularly invests $2,000 a year for ten years. Interest on the account is allowed to remain in the account so that interest is earned on interest. Investor B waits ten years, until age 35, before starting an annual savings program of $2,000 per year. Despite the fact that Investor B saves for thirty-one years, Investor A has a much larger amount at retirement — nearly $200,000 more!

Financial charts, calculators and computers are tools used to find answers to typical personal finance problems such as how much money one must save in order to have a specific amount of money at a future date. The increase in an amount of money over time as a result of invested earnings is known as the time value of money.

Future Value of a Single Deposit

Using the *Future Value of $1,000 Single Deposit* chart, you can determine the future value of money invested.

- Jerry's Grandfather gave him 200 shares in a stock mutual fund five years ago. The shares were worth $1,000 at that time. The shares averaged an annual rate of return of 15 percent over five years. How much is the investment worth today? ($2,011)

- Lynn's parents placed $1,000 in a bank savings account in Lynn's name 10 years ago. The account has earned five percent, compounded annually. No funds have ever been withdrawn from the account. How much is the account worth today? ($1,629) How much would Lynn have today if her parents had purchased certificates of deposit averaging eight percent return over the past 10 years? ($2,159)

Future Value of Monthly Deposits

Using the *Future Value of $25 Deposited Monthly* chart, you can determine how much a fixed amount of savings per month will grow within a given time.

- If Rob saves $25 each month at five percent interest and leaves the interest in his account, how much will he have saved at the end of two years? ($632) How much will he have saved if he saves $25 a month in a mutual fund yielding eight percent for two years? ($653)

Use text examples to illustrate future values

Overhead 3-27

FUTURE VALUE OF $1,000 SINGLE DEPOSIT

Overhead 3-28

FUTURE VALUE OF $25 DEPOSITED MONTHLY

Overhead 3-29

FUTURE VALUE OF $100 DEPOSITED MONTHLY

Overhead 3-30

MONTHLY DEPOSIT FOR FUTURE GOALS

Worksheet 3-31

RULE OF 72

Answer Key:

1. 11+ years
2. 9.6 years
3. 7.2 years
4. 12 years
5. 6 years

Were you surprised at the small amount of difference in the amount earned between five percent and eight percent? The rate of interest becomes more important for long-term investments due to the time value of money.

• If Rob invests $25 each month in a stock mutual fund that yields 15 percent per year, how much will the fund be worth in 10 years? ($6,966) If he puts $25 a month is a savings account earning five percent, how much will he have in 10 years? ($3,898) What is the difference in earnings over 10 years between the mutual fund earning 15 percent and the savings account earning five percent? ($6,966 - $3,898 = $3,068)

• Sue can save $25 each month. How long will it take her to accumulate $1,000 if her money earns eight percent interest and she reinvests the interest? (three years)

Using the *Future Value of $100 Deposited Monthly* chart, determine the growth of an employee tax-deferred savings plan over 10 years.

• Barbara and Stan are newly married. Stan's employer has a savings plan that allows money to grow tax-deferred. Stan's employer will contribute 50 cents for every dollar Stan saves in the plan. Combined with the employer's contribution, Barbara and Stan will save $100 a month.

How much would $100 saved per month be in 10 years at six percent? ($16,470) At eight percent? ($18,417)

Monthly Savings and Investments for Future Goals

Using the *Monthly Deposit For Future Goals* chart, determine how much money would have to be saved each month to reach the following goals:

• Rob wants to have $3,000 in three years for a down payment on a new car. How much must he save per month at five percent interest? At eight percent? (At five percent he must save $77.09. At eight percent he must save $73.52)

• Cindy wants to have $1,000 in one year in order to take a trip with her friends. How much must she save each month at five percent? At eight percent? (At five percent she must save $81.10. At eight percent she must save $79.80)

Rule of 72

A simple way to determine how long it will take for an investment to double in value is known as the **Rule of 72.**

To use the Rule of 72, divide the interest rate into 72. The answer is the number of years it will take for money to double in value. For example, if the stated interest rate is six percent it will take 12 years for the money to double. (72÷6 = 12). If the stated interest rate is eight percent it will take 9 years for the money to double.

Administer Unit Test and Discuss Answers

UNIT TEST

Test 3-32

SUMMARY

Key to Test

Matching

1. H	7. E
2. G	8. F
3. K	9. J
4. D	10. I
5. C	11. L
6. A	

True and False

1. True	6. False
2. True	7. True
3. False	8. False
4. True	9. False
5. False	

Short Answer

1. Savings options with low risk include:
   - Interest bearing checking and savings accounts
   - Certificates of Deposit
   - U.S. Savings Bonds
   - U.S. Treasury Bonds
   - Cash value life insurance

2. The purpose of diversification is to spread the risk of investing over different investment vehicles and industries.

3. Benefits of mutual funds include:
   - Diversification
   - Professional management
   - Small amounts of money can be invested
   - Easy to buy and sell

4. The time value of money concept states that, over time, the amount of money saved and invested will increase more rapidly due to compounding of earnings. As earnings are reinvested, they produce more earnings which are added to the principal. Because young people have a longer time to invest, the concept works better for them than for older people.

Definitions

Interest — payment received for lending money
Dividend — payment received by stockholders from a corporation's earnings
Appreciation — an increase in the basic value of an investment

SELECTED RESOURCES

Media

FDIC Insurance: Protecting Your Deposits, video. Federal Deposit Insurance Corporation, Office of Consumer Affairs, Washington, DC 20249. 1988.

Go for the Gold, video or filmstrip and cassette. Savings and Investment Choices. Money Management Institute, Household International, 2700 Sanders Road, Prospect Heights, IL 60070. 1985. Video - $12.00 Filmstrip and cassette - $8.00

How to Invest in Mutual Funds, video. Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 1990. $22.00

Investment Strategy For Busy People: The Mutual Fund Method, video or film. Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 1986. Video - $18.00 Film - $90.00

Make Money, Make Money, Series of 4 videos.
1. Bonds: Making A Percentage 2. Stock Markets: A Share In The Market
3. The Futures Market: Greed & Fear 4. Real Estate: A Concrete Investment
Ambrose Video Publishing, Inc., Dept. 989T, 381 Park Avenue South, Suite 1601, New York, NY 10157-0926. 1988. $375.00. ($99.95 ea.)

Understanding the Bond Market, video. Pitkin Productions, Inc., P.O. Box 11659, Aspen, CO 81612. 1988.

What Is A Mutual Fund? video or film. Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 1990. Video - $18.00 Film - $90.00

Publications

An Investors Guide to Reading the Mutual Fund Prospectus, Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 40¢.

Understanding Opportunities and Risks in Futures Trading, National Futures Association, 200 West Madison Street, Chicago, IL 60606-3447.

What is a Mutual Fund? 8 Fundamentals, Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 25¢.

Books

Garman, Thomas, and Raymond Forgue. **Personal Finance,** 3rd edition. Boston: Houghton Mifflin Company, 1991.

Kapoor, Jack, Les Dlabay, and Robert Hughes. **Personal Finance,** 2nd edition. Homewood, Illinois: Irwin, 1991.

Software

Crystal Ball, software. Learning Seed, 330 Telser Rd., Lake Zurich, IL 60047. 1986. $49.00

Financial Cookbook, software, text-workbook, teaching manual. Southwestern Publishing Co., 5101 Madison Rd., Cincinnati, OH 45227. 1984. $45.00

SAVINGS OPTIONS

	YIELD RANGE IN RECENT YEARS	FINANCIAL RISK	INFLATION HEDGE	LIQUIDITY
CHECKING ACCOUNTS	0 - 5.5%	Low risk if insured	None	High
SAVINGS ACCOUNTS	2.8 - 6%	Low risk if insured	None	High
CERTIFICATES OF DEPOSIT	3.1 - 9%	Low risk if insured	None	1 week to 8 years (penalty for early withdrawal)
U.S. SAVINGS BONDS EE & HH	5.5 -7%	Low risk, backed by U.S. government	None	Redemption results in lower yield
U.S. TREASURY BILLS, NOTES AND BONDS	3.75 - 10.5%	Low risk, if held to maturity, backed by U.S. government	None	Immediate to several years

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Name _____ Date _____

COMPARING SAVINGS PLACES

Financial Institution name _____

	Checking Account	Savings Account	Certificate of Deposit
Annual Interest Rate			
Effective Yield			
Safety (Insured by FDIC, NCUA, other)			
Minimum Initial Deposit			
Date to Maturity			
Penalty for Early Withdrawal			
Service Charges, Fees			

Comments on other factors such as convenience, friendly and courteous service, hours of service, local community involvement, etc.

_____

_____

_____

_____

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INVESTMENT OPTIONS

	YIELD RANGE IN RECENT YEARS	FINANCIAL RISK	INFLATION HEDGE	LIQUIDITY
STOCKS		Medium to High	Good	High
Common	0 - 20%			
Preferred	5-9%			
BONDS			None	Varies,
Municipal	3-10%	Low to Medium		Immediate to
Corporate High Quality	6-11%	Low to Medium		30 Years
Junk Bonds	8-14%	High		
MUTUAL FUNDS (Money market, stocks, bonds)	0-16%	Low to High Depends on skill of fund manager and fund objectives	Good	High
REAL ESTATE (Home, rental unit, commercial property)	0-20%	Medium to High	Good	Low
COLLECTIBLES (Art, antiques, precious metals, gems)	Few collections yield profits	H igh	Varies	Low to Moderate
FUTURES CONTRACTS	0-30%	High	Good	High

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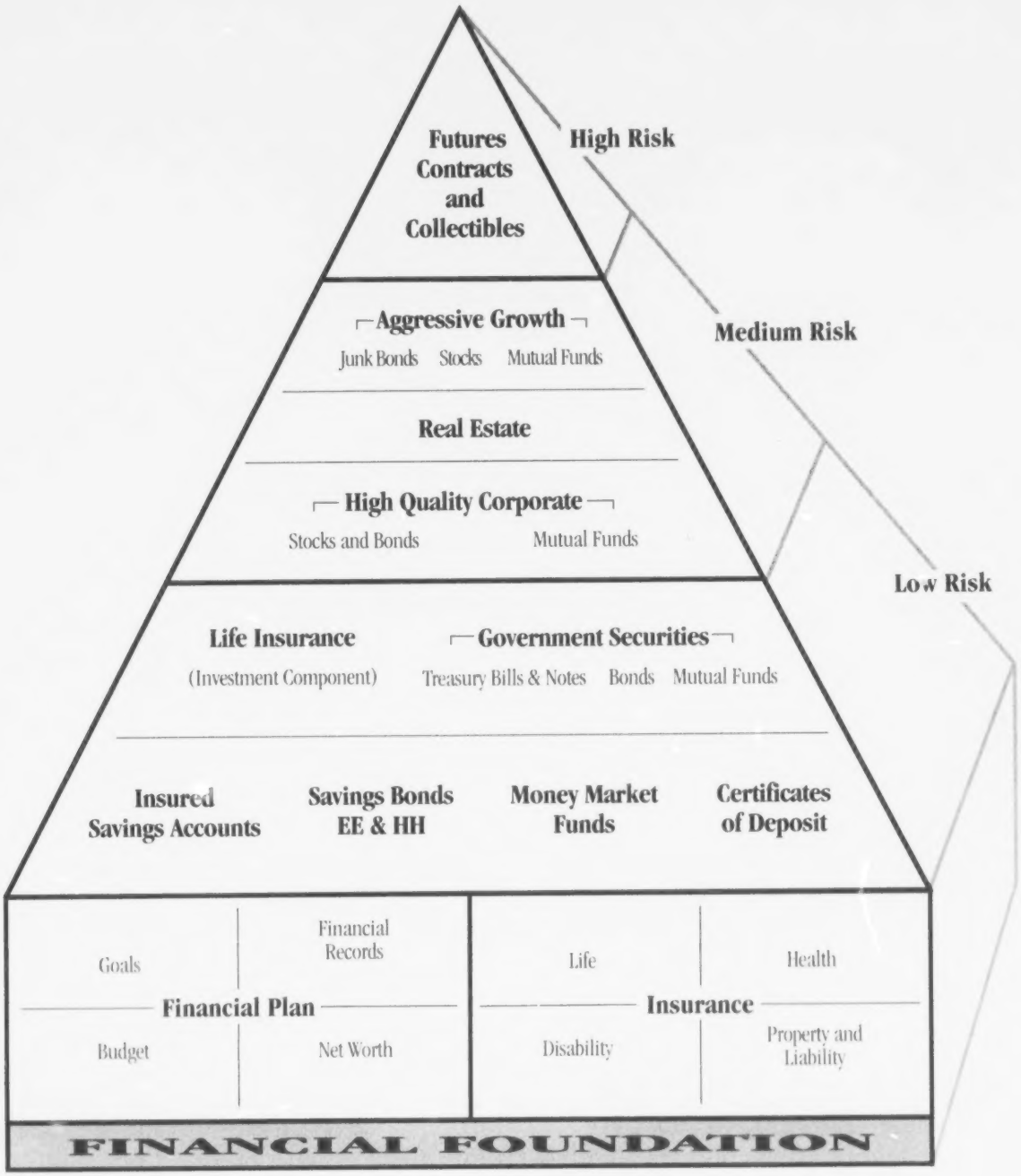
PYRAMID OF INVESTMENT RISK



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Name _____ Date _____

COMPARING MUTUAL FUNDS

	1.	2.	3.
NAME OF MUTUAL FUND			
MUTUAL FUND TYPE (Stock, bond, futures, money market, balanced, indexed, sector, etc.)			
MUTUAL FUND OBJECTIVE (Aggressive growth, moderate growth, income and safety, and income)			
CURRENT RATE OF RETURN			
YIELD RANGE IN LAST THREE TO FIVE YEARS			
LOAD FEES (Sales and redemption charges)			
TOTAL OPERATING EXPENSES (Management fees, advertising, and marketing costs expressed as a percentage of average net assets)			
LEVEL OF RISK (High, medium, low)			

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Name _____ Date _____

Topic _____

UNIT 3
READINGS ON INVESTMENTS

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article _____

Source _____ Date _____

Author (if given) _____

2. Write a brief summary of the main ideas of the article or pamphlet.

_____

_____

_____

_____

_____

_____

_____

_____

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

_____

_____

_____

Attach a copy of the article or pamphlet to this page.

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YIELD OF TAXABLE AND TAX-EXEMPT INVESTMENTS

Tax-Exempt Investment Yield	Federal Tax Bracket		
	15%	28%	33%
	Taxable Investment Yield		
4%	4.7%	5.6%	6.0%
5%	5.8%	6.9%	7.5%
6%	7.0%	8.3%	9.0%
7%	8.2%	9.2%	10.4%

Example:

A person in a 28% tax bracket who invests money in a tax-exempt municipal bond fund paying 6% would have the same income as someone investing in a taxable fund paying 8.3%.

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TAX-DEFERRED SAVINGS GROW FASTER THAN TAXABLE SAVINGS

	Taxable Savings	Tax-Deferred Savings
$15,000 Invested Today	$15,000	$15,000
Value in 20 Years Invested at 10% Annual Interest	$60,254	$100,912

In a taxable savings account you pay taxes on the earnings each year. This reduces the amount of money available to earn interest.

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HOW TIME AFFECTS THE VALUE OF MONEY

Investor A invests $2,000 a year for 10 years, beginning at age 25. Investor B waits 10 years, then invests $2,000 a year for 31 years. Compare the total contributions and the total value at retirement of the two investments.

Investor A

Age	Years	Contributions	Year End Value
25	1	$2,000	$ 2,188
26	2	2,000	4,580
27	3	2,000	7,198
28	4	2,000	10,061
29	5	2,000	13,192
30	6	2,000	16,617
31	7	2,000	20,363
32	8	2,000	24,461
33	9	2,000	28,944
34	10	2,000	33,846
35	11	0	37,021
36	12	0	40,494
37	13	0	44,293
38	14	0	48,448
39	15	0	52,992
40	16	0	57,963
41	17	0	63,401
42	18	0	69,348
43	19	0	75,854
44	20	0	82,969
45	21	0	90,752
46	22	0	99,265
47	23	0	108,577
48	24	0	118,763
49	25	0	129,903
50	26	0	142,089
51	27	0	155,418
52	28	0	169,997
53	29	0	185,944
54	30	0	203,387
55	31	0	222,466
56	32	0	243,335
57	33	0	266,162
58	34	0	291,129
59	35	0	318,439
60	36	0	348,311
61	37	0	380,985
62	38	0	416,724
63	39	0	455,816
64	40	0	498,574
65	41	0	545,344

Value At Retirement	$545,344
Less Total Contributions	($20,000)
Net Earnings	$525,344

Investor B

Age	Years	Contributions	Year End Value
25	1	$ 0	$ 0
26	2	0	0
27	3	0	0
28	4	0	0
29	5	0	0
30	6	0	0
31	7	0	0
32	8	0	0
33	9	0	0
34	10	0	0
35	11	2,000	2,188
36	12	2,000	4,580
37	13	2,000	7,198
38	14	2,000	10,061
39	15	2,000	13,192
40	16	2,000	16,617
41	17	2,000	20,363
42	18	2,000	24,461
43	19	2,000	28,944
44	20	2,000	33,846
45	21	2,000	39,209
46	22	2,000	45,075
47	23	2,000	51,490
48	24	2,000	58,508
49	25	2,000	66,184
50	26	2,000	74,580
51	27	2,000	83,764
52	28	2,000	93,809
53	29	2,000	104,797
54	30	2,000	116,815
55	31	2,000	129,961
56	32	2,000	144,340
57	33	2,000	160,068
58	34	2,000	177,271
59	35	2,000	196,088
60	36	2,000	216,670
61	37	2,000	239,182
62	38	2,000	263,807
63	39	2,000	290,741
64	40	2,000	320,202
65	41	2,000	352,427

Value At Retirement	$352,427
Less Total Contributions	($62,000)
Net Earnings	$290,427

Note: Assumes a 9 percent fixed rate of return, compounded monthly. All interest is left in the account to allow interest to be earned on interest.

Source: Franklin Distributors, Inc., San Mateo, CA 94404. Used with permission

Name _____ Date _____

TIME VALUE OF MONEY

ADVANTAGE OF INVESTING EARLY IN LIFE

Using the handout **How Time Affects the Value of Money,** answer the following questions:

1. At $2,000 a year, how much did Investor A invest in the ten years between ages 25 and 35?

_____

2. What is the year-end value of Investor A's investment at the end of 10 years when the Investor is 35?

_____

3. At $2,000 a year, how much did Investor B invest over the 31 years, from age 35 through 65?

_____

4. What is the value at retirement of Investor A's investment? _____

5. What is the value at retirement of Investor B's investment? _____

6. What are Investor A's net earnings? _____

7. What are Investor B's net earnings? _____

8. Summarize in your own words, what is meant by "the time value of money."

_____

_____

_____

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FUTURE VALUE OF $1,000 SINGLE DEPOSIT

Year	Annual Percentage Rate of Return 5%	8%	15%
1	$1,050	$1,180	$1,150
2	1,102	1,166	1,323
5	1,276	1,469	2,011
10	1,629	2,159	4,046
20	2,653	4,661	16,367

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FUTURE VALUE OF $25 DEPOSITED MONTHLY

Year	Interest Rate 5%	8%	15%
1	$308	$313	$325
2	632	653	703
3	973	1,020	1,142
5	1,707	1,849	2,242
10	3,898	4,604	6,966
20	10,319	14,824	37,899

Savings deposit made at beginning of each month with interest compounded monthly.

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FUTURE VALUE OF $100 DEPOSITED MONTHLY

Year	Interest Rate 5%	8%	15%
1	$1,233	$1,253	$1,302
2	2,529	2,611	2,814
3	3,891	4,081	4,568
5	6,829	7,397	8,968
10	15,593	18,417	27,866
20	41,275	59,295	151,596

Savings deposit made at beginning of each month with interest compounded monthly.

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MONTHLY DEPOSIT FOR FUTURE GOALS

Goal	5% Interest Rate 1 Year	3 Years	5 Years
1,000	$ 81.10	$ 25.70	$ 14.64
2,000	162.20	51.39	29.29
3,000	243.31	77.09	43.93
5,000	405.51	128.49	73.72

Goal	8% Interest Rate 1 Year	3 Years	5 Years
1,000	$ 79.80	$ 24.51	$ 13.52
2,000	159.58	49.01	27.04
3,000	239.37	73.52	40.56
5,000	398.95	122.53	67.60

Savings deposit made at beginning of each month with interest compounded monthly.

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Name _____ Date _____

RULE OF 72

The RULE of 72 is a useful tool for investors. With the RULE of 72, you can calculate how long it will take your money to double at a given interest rate, if you reinvest the earnings.

---

72 Divided by the Percentage Rate of Return
Equals
The Number of Years Needed to Double Your Money

For example, if you had $1,000 to invest, it would take 9 years at 8% interest rate for the money to reach $2,000. (72 ÷ 8 = 9)

At 10%, it would take 7.2 years for the $1,000 to double. (72 ÷ 10 = 7.2)

How long will it take the following investments to double?

Investment	Rate of Return	Years to Double
1. CD	6.5%	_____
2. U.S. Treasury Note	7.5%	_____
3. Common Stock	10.0%	_____
4. Money Market	6.0%	_____

5. An investment club has a goal of picking stocks that grow 12% per year. How long would it take for such an investment to double in value?

_____

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Name _____ Date _____

INVESTMENT CHOICES

UNIT 3 TEST

Matching

Match each of the terms listed below with the numbered definition. Write the letter in the space provided.

A. diversification	D. stock	G. securities	J. appreciation
B. dividend	E. prospectus	H. tax-exempt	K. mutual fund
C. liquid	F. the return	I. bond	L. no-load

1. _____ free of tax considerations
2. _____ investment instruments such as stocks and bonds
3. _____ where individuals "pool" investment money
4. _____ ownership interest in a company
5. _____ can easily be converted into cash
6. _____ spreading investment money among different instruments and industries
7. _____ legal document describing an investment offered for sale
8. _____ amount gained or lost from an investment
9. _____ an increase in the basic value of an investment
10. _____ certificate representing a loan
11. _____ a mutual fund which has no up-front fee

True or False

Read each statement carefully and mark with a T for True or an F for False.

_____ 1. A savings account can be a building block for future investing.

_____ 2. Liquid investments can be easily converted into cash.

_____ 3. Risk tolerance refers to the amount of money you place in your no-risk savings account.

_____ 4. As a general rule, the greater the risk, the higher the potential rate of return.

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_____ 5. Timed certificates of deposit are the most liquid type of savings.

_____ 6. Municipal bonds are issued by publicly held companies.

_____ 7. Load and no-load mutual funds have annual management fees.

_____ 8. With a five percent rate of return, it would take 20 years to double an investment.

_____ 9. A limited partnership is a good investment vehicle for a beginning investor because it is limited.

Short Answer

1. List three savings options with low risk.
   1)
   2)
   3)
2. Explain the purpose of diversification in investments.

3. Name three benefits of mutual funds for a beginning investor.
   1)
   2)
   3)
4. Explain why the "time value of money" concept works better for young people than for those approaching retirement.

Definitions

Define the following investment terms:

Interest _____

Dividends _____

Appreciation _____

UNIT 4

INVESTMENT INFORMATION TOPIC OUTLINE

4•1 **INFORMATION ABOUT MARKETS AND SECURITIES**

Worksheets
- A Mutual Fund Prospectus
- Readings on Investments
- Stock and Bond Fractions

Overheads/ Worksheets
- Stock Quotations
- Bond Quotations
- Mutual Fund Quotations

4•4 **SELECTING FINANCIAL ADVISORS**

Overheads
- Questions to Ask Before You Hire A Financial Planner
- Designations of Financial Planners

4•8 **SUMMARY**

Test

Key to Test

4•9 **SELECTED RESOURCES**

UNIT 4

Unit Objectives

- Identify sources of financial information.
- Read newspaper price quotations of stocks, bonds and mutual funds.
- List factors to consider when selecting financial advisors.

INVESTMENT INFORMATION

Both before and after you make an investment you will gather and use information. You will want to know such things as earnings history, risk factors, quality of management, and opportunities for future growth and income in order to select appropriate investments. After you buy, you will want to track the investment's market price and earnings compared to other investment options.

Introduction: Videos

View and discuss one or more of the following videos:

Joy of Stocks, *from Social Studies School Service.*

Segment 3 - Corporate Reports
Segment 4 - Fundamentals
Segment 5 - Technicals
Segment 6 - Charts

What is a Mutual Fund? *from Investment Company Institute.*

See Selected Resources 4-9.

INFORMATION ABOUT MARKETS AND SECURITIES

Investments provide opportunities for gain in both up (bull) and down (bear) markets. History has shown that many small investors do the exact opposite of what the market signals indicate. They buy high and sell low, and often lose both money and confidence.

Experienced investors realize that no one really knows where the market highs and lows will be. Yet many investors watch market trends, corporate reports and leading economic indicators. They want to know whether the economy is in an up or down cycle, and whether interest rates are climbing, holding, or falling. These market signals can be used to forecast market prices in the next few months. Investors use this information as they make decisions about buying, selling or holding specific investments.

Worksheet 4-11

A MUTUAL FUND PROSPECTUS

Provide or have students collect a variety of prospectuses. Have students work in small groups to complete the worksheet and report their findings to the class.

Prospectus

The prospectus or offering circular is a legal document describing an investment offered for sale. The prospectus usually contains a short statement of objectives of the company or mutual fund. It also contains a financial statement showing assets and liabilities, performance (profit or loss) over a period of years, and any fees the investor must pay.

Investors often make the mistake of investing in stock or a mutual fund that is currently at the top of the earnings charts without evaluating whether it will do as well in the future. Past performance does not guarantee future results.

Financial Media

Information and advice on how to invest your money is available in many forms. Newspapers, periodicals, books, radio talk-shows, television news broadcasts, video tapes and computer software are examples which illustrate the diversity in delivery techniques. The old saying "don't believe everything you read in the newspapers" is true and can apply to other media forms as well.

Investors gathering information must carefully examine the credibility of the investment source. A warning signal should sound when a particular company's

Worksheet 4-12

READINGS ON INVESTMENTS

Have students read and report on current articles in financial publications found in the local library. Topics could include:

- How to select a financial planner
- Economic indicators and investment decisions
- Comparing performance among groups of mutual funds

Worksheet 4-13

STOCK AND BOND FRACTIONS

Discuss how stock and bond fractions are quoted. Give examples. Have students complete worksheet.

Answer Key:

Stock Quotes

250 shares @ 39 1/4	$ 9,812.50
100 shares @ 19 1/8	$ 1,912.50
425 shares @ 20 3/4	$ 8,818.75
60 shares @ 41 1/2	$ 2,490.00
600 shares @ 19 7/8	$11,925.00*
600 shares @ 19 3/4	$11,850.00*
* Difference in price	$ 75.00

Bond Quotes

Dollar price of bond quoted	$ 978.75

As a homework assignment, have students study the following handouts on stock, bond, and mutual fund quotations and complete the related worksheets. Discuss the answers in class.

products or services are being promoted. Some investment advisors are able to offer you "free" guidance because they earn a commission on what you and others buy such as insurance, investments, books, and tapes. Television infomercials which are paid half-hour or hour broadcasts and financial seminars frequently fit into this category.

Local library business reference sections have many valuable and reputable publications:

- **Barron's** is a weekly paper that presents at least one study of a selected industry.
- **Better Investing** is a publication devoted exclusively to investment education.
- **Business Week** covers general business activity, with departments focusing on economics, finance, marketing and new products.
- **Forbes** combines appraisal of management performance with investment advice by different security analysts.
- **Fortune** reports on business from a business point of view. Its list of the 500 largest businesses is widely known.
- **Kiplinger's Personal Finance Magazine** (formerly Changing Times) and **Money** cover all aspects of money for the individual, including investments.
- The **Wall Street Journal** reports daily news developments and their significance to business and investors.
- **Investors Business Daily** focuses on the investment aspects of stocks plus technical information about various financial vehicles.

Other popular printed sources of securities market data include Moody's **Handbook of Common Stocks,** Value Line **Investment Survey** and Standard and Poor's **Stock Reports.** These sources present basic facts and figures on widely held stocks.

Investment Clubs

Another way to learn about investing is through investment clubs. An investment club consists of a group of people who pool funds and investment knowledge. A specific amount of money is invested each month. Some investment clubs handle large sums of money in extensive stock portfolios. Others invest small amounts with the primary objective of learning about the stock market. Information about investment clubs and their educational materials can be obtained from the National Association of Investment Clubs, 1515 East Eleven Mile Road, Royal Oak, Michigan 48067.

Understanding Price Quotations

Investors can follow the changing prices of investments by reading price quotations in the financial pages of newspapers. Many newspapers print market prices daily, others list prices weekly.

STOCK QUOTATIONS

Overhead 4-14
Worksheet 4-15

Answer Key:

1. 1,875,500

2. American Express $0.92 yearly/share
Ford Motor $1.60 yearly/share
Sears $2.00 yearly/share

3. Sears

4. 1 1/4

5. 32 1/2

6. 5.1% or $5.10 for every $100 invested

7. $2,625.00

BOND QUOTATIONS

Overhead 4-16
Worksheet 4-17

Answer Key:

1. 150,000

2. US Air - 1999
CBS - 2008

3. US Air - 16.25% or $162.50 per $1,000
IBM - 0% - zero coupon bond
CBS - 9.8% or $98 per $1,000

4. IBM - $0

5. US Air - $1,118.75 — no change
CBS - $1,075 ($1,095 - $20)

MUTUAL FUND QUOTATIONS

Overhead 4-18
Worksheet 4-19

Answer Key:

1. $12.34

2. $21

3. Gain of four cents

4. $12.30
$2,460
$540
($15 x 200 shares = $3,000
$3,000 -2460 = $ 540)

An investor needs to know not only the current price of the investment, but also a history of the investment's prices. Investors can easily track prices by recording daily price changes from data in the newspaper.

Stock prices are quoted in fractions of eights for amounts less than a dollar. Bond price quotations use eighths also, but with a difference. Bonds are sold in $1,000 units but are quoted as 100s. To find the correct value of the bond, the decimal place in the quote must be moved one place to the right. On occasion, bond prices are quoted using increments of 1/16 or 1/32. Since stocks and bonds are purchased through a broker, there may be an additional fee or commission charged for execution of the order.

When a bond is first issued, it can be sold in one of three ways:

- **face value** is the value of the bond stated on the certificate
- **discount** is a price below face value
- **premium** is a price above face value

Zero coupon bonds are sold at a deep discount and there is no coupon rate. Interest is collected when the bond is redeemed.

Mutual funds quote a net asset value (NAV) per share. NAV is the market value of all the securities owned by the fund, less liabilities, divided by the number of shares. The price you pay to buy a share of a mutual fund (offer price) is the NAV plus any sales charges from the mutual fund or a broker. An NL in the offer price column indicates the fund is no-load but you may still pay a management or redemption fee. If a load fund is purchased from a broker there may also be a brokerage fee or commission.

Commodity, financial and currency futures contracts are also listed in newspapers. The broker who handles the sale will charge a fee or commission for executing the order.

Using Investment Ratings

In addition to the short term yield information provided in newspaper price quotations, investors compare risk and long-term returns. Various independent advisory services publish ratings which allow these comparisons. For example, Moody's publishes ratings of the financial condition of corporations and municipalities issuing bonds. Consumer and finance magazines such as **Kiplinger's Personal Finance Magazine** and **Money** provide comprehensive ratings of how specific mutual funds fare in bear and bull markets.

To compare the long-term return of a bond with the long-term return of another bond or another type of investment, check the bond's yield to maturity. Besides annual interest, the yield to maturity includes any profit or loss at redemption. This information is available from brokers and financial publications. Yields quoted in the newspaper do not take into consideration that the the investor may have paid more or less for a bond than face value. Capital gains for stocks and mutual funds must also be factored in with any investment comparisons.

In 1992 the Securities and Exchange Commission reported that it employs 46 inspectors to check on 17,500 financial planners. Most financial planning firms are checked by the SEC only about once every 30 years. The SEC wants to raise registration fees to pay for wider oversight.

Discussion Questions:

1. Do you think that most consumers believe that an effective consumer protection program is in place against investment fraud?
2. Do you support higher registration fees in order for planners to be more highly regulated? Why or why not?
3. What questions should a consumer ask the financial planner prior to investing money.

QUESTIONS TO ASK BEFORE YOU HIRE A FINANCIAL PLANNER

Overhead 4-20

SELECTING FINANCIAL ADVISORS

The selection of financial advisors deserves careful thought. The first question to ask is whether you really need financial advice in the first place. Could you make appropriate financial decisions without the help of a specialist? Have you explored alternatives such as attending classes, self-study, reading financial pages in newspapers and periodicals, and using financial planning services provided by your employer?

The individual investor who has basic money management skills can judge better the quality of suggestions made by financial professionals. Selecting an appropriate advisor is important because the advice the person gives will affect your future financial well being. Among those who provide financial advice are attorneys, accountants, bank trust officers, brokers, credit counselors, insurance and real estate agents, employee benefits staff and financial planners.

While many functions could be accomplished without the help of a financial advisor, many people lack confidence in managing their money and want advisors to hold their hands when they make financial decisions. Some investors feel they do not have the time and know-how to organize and monitor their own financial affairs. These people may benefit from the advice of a competent financial advisor. Often they must be willing to pay for the service.

Financial Planners

One type of financial advisor is the financial planner. Financial planning requires a working knowledge of budgeting, financial recordkeeping, saving and investing, insurance, taxes and retirement and estate planning. The planner may work with a team of financial professionals including attorneys and accountants.

A financial planner may provide the following services:

- organize and analyze financial records such as insurance policies, tax returns, net-worth statements, debt obligations
- establish timelines and actions to reach financial goals
- consult with appropriate specialists such as a lawyer for a will and estate plan, and a tax accountant if necessary
- develop a long-term financial plan, as a guide for financial decision making, including insurance and investment strategies and estate planning
- monitor and revise the financial plan as circumstances and needs change

Since nearly anyone can call themselves a financial planner, it is important to choose a financial planner who is qualified through training and experience, and who puts the investor's financial well-being ahead of the desire for personal gain through commissions on the sale of financial products and services.

Overhead 4-21

Use overheads to support a mini-lecture on financial planner credentials, services, designations and costs.

Before signing a contract with a financial planner, you have the right and responsibility to investigate the planner's background as well as the costs of the services to be provided. Questions to ask before hiring a financial planner include:

- What are your credentials?
- What services will you provide?
- How much will it cost?
- How are you paid?

Credentials of the Financial Planner. What is the financial planner's educational background and experience in financial services? How long has the person been working with clients? Where did he or she work before? For how long?

Designations that can be earned by professional financial planners include Certified Financial Planner (CFP) and the Chartered Financial Consultant (ChFC).

- The CFP mark identifies an individual who has completed the educational examination and other professional requirements of the International Board of Certified Financial Planners (IBCFP) and has agreed to adhere to the IBCFP Code of Ethics. The program of study includes a broad range of financial topics.

- The ChFC mark (Chartered Financial Consultant) identifies an individual who has completed the requirements for certification from the American College in Bryn Mawr, Pennsylvania. It is generally earned by insurance professionals who provide financial planning services.

Other designations exist which are related to investment activity but are not specific to financial planning. While they provide evidence that a person has met certain professional requirements, they do not assure that a person has special training to be a financial planner.

- The CPA mark (Certified Public Accountant) identifies an individual who has completed the requirements for certification of the American Institute of Certified Public Accountants.

- The RIA mark (Registered Investment Advisor) identifies an individual who charges for investment advice and is registered with the state securities agency or with the Securities and Exchange Commission. The RIA mark does not assure that the person has had special training to be a financial planner.

- The REG REP mark (Registered Representative) identifies an individual who is registered with the National Association of Securities Dealers. It does not assure that the person has had special training to be a financial planner.

How does the financial planner keep up-to-date on new financial developments and tax laws? Is the planner a member of professional associations such as the Registry of Financial Planning Practitioners of the International Association for Financial Planning (IAFP); the Institute of Certified Financial Planners (ICFP); and the National Association of Personal Financial Advisors (NAPFA)? The addresses of these groups are in the appendix. You can write to them for a list of financial planners in your area.

Services provided by Financial Planners. Will the planner provide a written contract in advance of work, listing services to be provided? Ask to see an example of a financial plan that the planner has prepared for a person with needs similar to yours. Will the planner provide names of clients who you can call?

How often will the financial plan be monitored and modified to meet changing conditions and needs? Working with a financial planner can be an educational experience in itself, enabling the investor to gain confidence in making independent financial decisions.

A financial planner should know specific details about you and your financial circumstances. The products and financial plans recommended should be in line with your financial objectives. Avoid financial planners who try to "sell" a product rather than provide sound advice appropriate to your financial situation and goals.

The planner should have a close working relationship with other financial advisors including accountants, attorneys and insurance professionals. A financial planner rarely has expertise in all areas of personal finance.

Are you comfortable with the personality and communication skills of the financial planner? Because the planner will have detailed knowledge of your personal financial affairs, it is essential that there be a positive working relationship. After carefully reviewing the planner's credentials, decide whether this person is someone you can trust. Even then, learn as much as you can about each investment, and do not invest in an area you do not understand.

How Financial Planners Are Paid. Does the planner charge a fee or commission? A financial planner's income can be obtained in one of three ways:

1. A fee-only planner charges on an hourly or flat rate basis. The planner provides advice but does not sell products.
2. A fee-and-commission planner provides advice for a fee, and earns commission on the financial products sold to the client.
3. A commission-only planner earns money from the financial products sold and does not charge a fee for advice.

Because about 90 percent of financial planners earn part or all of their income from commissions, the issue of conflict of interest can be a problem.

Will the planner be more interested in selling insurance policies, mutual funds or limited partnerships than in providing the best investment plan for the client?

Costs of Financial Planning Services. The investments recommended by a financial planner can carry sales fees of three percent to 10 percent of the money invested. For example, if a person has $10,000 to invest, an eight percent sales commission on a mutual fund would cost $800.

A recent **Wall Street Journal** article reported that comprehensive financial planning services from fee-only planners can range from $100 to $250 an hour or more. The minimum amount of time spent is usually 10 to 15 hours, so the total bill for planning services could range from $1,000 to nearly $4,000. Under certain conditions, however, just a couple of hours consultation with a competent financial planner could provide an answer to a sticky financial question and be well worth the cost.

The typical computerized financial analysis program can range from $200 to $2,000 or more. The individual investor may want to consider the cost of planning as a percentage of the total amount to be invested.

Unless investors have discretionary income of $20,000 or more, they probably do not need the services of a financial planner. However, some people are willing to pay for financial planning services when they have a major financial decision to make, such as how to invest an inheritance or a retirement fund pay-out. Others use a planner when they feel that they will earn more money with the planner's assistance than without it.

Brokers

Another type of financial advisor, a broker handles the public's orders to buy and sell securities and futures contracts. Brokers, sometimes called account executives or registered representatives, work in brokerage houses and other financial firms. Some financial companies have satellite office locations in lobbies of banks, office buildings, and retail stores.

Brokers are licensed in the state where their clients reside and are registered with the National Association of Securities Dealers or National Futures Association. There are two types of brokers:

- **Discount brokers** buy and sell stocks and bonds at lower rates than full-service brokers. These brokers are paid a salary or small commission.
- **Full-service brokers** give investment advice, as well as buy and sell securities. They are paid on a commission basis.

The broker's commission for buying or selling securities or commodities is based on the dollar amount of the transaction. Before you buy or sell, ask the broker what the transaction cost will be. All brokers have a minimum fee per transaction but fees are negotiable. Full service broker commissions are understandably higher than those of discount brokers.

Insurance Agents

Although the traditional role of insurance agents is to sell insurance products, that role has expanded in recent years to include other financial products and services. As with all types of financial advisors who sell products, the consumer should be aware of possible bias. Be skeptical. Ask questions. Compare costs and expected yields.

Individual investors stand to gain or lose significantly from decisions made about managing their money. They cannot afford to sit back and let the financial future take care of itself, or let someone else make their financial decisions for them. Successful money management is a lifelong process that requires regular monitoring and periodic adjustments to meet changing circumstances and needs. Relationships with financial professionals work best when individual investors are informed about financial matters, and are actively involved in financial decisions.

Administer Unit Test and Discuss Answers

Test 4-22

UNIT TEST

SUMMARY

Key to Test

Matching	True or False	Multiple Choice
1. H	1. False	1. C
2. F	2. False	2. D
3. G	3. False	
4. D	4. False	
5. A	5. False	
6. B	6. False	
7. E	7. False	
8. J	8. True	

Short Answer

1. With a family of funds, the investor can
   - meet different investment needs with just one institution
   - move money from one fund to another as needs change, sometimes without additional transaction fees

2. Translate these prices into dollars and cents.
   Stock: 37 ¼ = $ 37.50 5 ⅛ = $5.125 80 ⅝ = $80.625
   Bond: 102 ½ = $1025.00 99 ⅜ = $993.75 75 ⅞ = $758.75

3. 1997, 2000, 2026

4. 9.2% or $9.20 per $100 invested

5. Apache

6. Ames $1,025.00 Amoco $996.25

7. $1,018.75 ($1,025.00 - $6.25)

8. $9.20

9. Pioneer Bond $.43 Plummer Balance $0

10. $12.03

11. Two methods by which financial planners are paid
    - fees
    - commission

SELECTED RESOURCES

Media

Joy of Stocks: Forbes Guide to the Stock Market, video.
Segment 3. Corporate Reports-The Inside Story
Segment 4. Fundamentals-The World Outside
Segment 5. Technicals-The World Inside
Segment 6. Charts
Social Studies School Service, 10200 Jefferson Boulevard, Room D71, P.O. Box 802, Culver City, CA 90232-0802. 1984. $56.50

What Is A Mutual Fund? video or film.
Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. Video - $18.00 Film - $90.00

Periodicals

Kiplinger's Personal Finance Magazine, 1729 H Street, N.W., Washington, DC 20006.

Money, Time, Inc., 541 N. Fairbanks Ct., Chicago, IL 60611.

Wall Street Journal, 200 Burnett Road, P.O. Box 900, Chicopee, MA 01221-0900.

Books

Garman, Thomas, and Raymond Forgue. **Personal Finance,** 3rd edition, Boston: Houghton Mifflin Company, 1991.

Senchack, Andrew J., **Smart Investing: A Step-by-Step Guide to Financial Security.** Dallas: Taylor Publishing Company, 1987.

Shane, Dorlene V., **Be Your Own Financial Planner.** New York: John Wiley and Sons, Inc., 1987.

Name _____ Date _____

A MUTUAL FUND PROSPECTUS

Using a mutual fund prospectus, answer the following questions:

1. What is the name of the fund?

2. What is the primary goal of the fund?

3. Does the fund offer any special features? If so, list.

4. What are the investment strategies used by the fund?

5. Does the prospectus give information regarding the manager of the fund? If so, what?

6. What fees are required by this fund?

7. What warning signals does this prospectus contain?

8. Would you recommend this fund to a beginning investor? Why or why not?

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Name _____ Date _____

Topic _____

UNIT 4

READINGS ON INVESTMENTS

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article _____

Source _____ Date _____

Author (if given) _____

2. Write a brief summary of the main ideas of the article or pamphlet.

_____

_____

_____

_____

_____

_____

_____

_____

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

_____

_____

_____

Attach a copy of the article or pamphlet to this page.

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Name _____ Date _____

STOCK AND BOND FRACTIONS

Stock Quotes

Stock prices are quoted in fractions of eighths for amounts less than a dollar. This practice may have evolved from a time when the Spanish "Piece of Eight" was widely used in the civilized world. The fractions save space in newpaper quotes.

To convert eighths of a dollar into cents, use the following equivalents:

⅛ = 12 ½ cents ($0.125)
¼ = 25 cents ($0.25)
⅜ = 37 ½ cents ($0.375)
⅝ = 62 ½ cents ($0.625)
¾ = 75 cents ($0.75)
⅞ = 87 ½ cents ($0.875)

Find the cost of the following stock purchases, ignoring sales commissions.

250 shares @ 39 ¼ _____
100 shares @ 19 ⅛ _____
425 shares @ 20 ¾ _____
60 shares @ 41½ _____
600 shares @ 19 ⅞ _____
600 shares @ 19 ¾ _____

The movement of the price of a stock by one eighth is sometimes a significant dollar amount. What is the difference in the price of the two 600 share lots above. _____

Bond Quotes

Bond price quotations use eighths also, but with a difference. Bonds are sold in units of $1,000 but are quoted as 100s. To find the correct dollar value, move the decimal one place to the right.

For example, a bond quoted at 98 ¼ is equivalent to 98.25. Move the decimal one place the right to find the dollar price of the bond, which is $982.50. This bond is selling for less than $1,000 so it is selling at a **discount,** probably because of a low rate of interest.

A bond quoted at 102 ⅜ (102.375) equals $1,023.75. This bond is selling at a **premium,** probably because of a high interest rate or yield.

What is the dollar price of a bond quoted at 97 ⅞? _____

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STOCK QUOTATIONS

1	2	3	4	5	6	7	8	9	10	11
High 52 Week	**Low**	**Stock**	**Div**	**Yld %**	**P-E Ratio**	**Sales 100s**	**High**	**Low**	**Close**	**Net Change**
32	17 ½	AmExp	.92	3.1	86	19772	30 ⅜	29 ¼	29 ¼	- ⅝
48 ¾	25	FordM	1.60	4.7	18	18755	33 ⅞	32 ⅜	33 ¾	+1 ¼
38 ⅝	22	Sears	2.00	5.1	15	17969	39 ⅞	37 ⅛	39 ½	+2 ⅛

What It Says

Columns 1, 2 and 3
High, Low, Stock

During the last 52 weeks, the highest price paid for a share of American Express common stock was $32 and the lowest was $17.50.

Column 4
Dividend

American Express stock pays $0.92 yearly in dividends.

Column 5
Yield

At today's price, the investor receives a return of 3.1% or $3.10 for every $100 invested. The yield is obtained by dividing the annual dividend by the closing price.

Column 6
P-E Ratio

At today's price, the ratio of price to earnings is 86. It is one way to compare stocks of firms in the same industry. In general, low P-E stocks tend to have higher dividend yields and less risk. The P-E ratio is obtained by dividing the stock's price by the company's latest 12 months earnings per share.

Column 7
Sales in 100s

On this day, 1,977,200 shares of American Express stock changed hands.

Column 8, 9, 10 and 11
High, Low, Close, Net Change

During the trading day, the price was as high as $30.37 ½ per share and as low as $29.25. The final price was for $29.25 which was $0.62 ½ less than the final price on the previous day.

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Name _____ Date _____

STOCK QUOTATIONS WORKSHEET

1	2	3	4	5	6	7	8	9	10	11
High 52 Week	Low 52 Week	Stock	Div	Yld %	P-E Ratio	Sales 100s	High	Low	Close	Net Change
32	7 ½	AmExp	.92	3.1	86	19772	30 ⅜	29 ¼	29 ¼	- ⅝
48 ¾	25	FordM	1.60	4.7	18	18755	33 ⅞	32 ⅜	33 ¾	+1 ¼
38 ⅝	22	Sears	2.00	5.1	15	17969	39 ⅞	37 ⅛	39 ½	+2 ⅛

Test Your Knowledge

1. How many transactions of Ford common stock were made? _____

2. What is the common stock dividend of each of these companies stocks:

   American Express _____

   Ford Motor _____

   Sears _____

3. Which stock is trading closest to its high of the year? _____

4. What was the increase in the dollar value of Ford common stock? _____

5. What was Ford's closing price on the previous day? _____

6. Sears has a dividend yield of _____

7. If you bought 300 shares of Ford at its low for the year and sold it at this day's closing price, what would be your capital gain? _____

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BOND QUOTATIONS

1	2	3	4	5
Bonds	**Cur Yld**	**Vol**	**Close**	**Net Change**
Chiquta 10 ½ 04	10.7	144	98 ¼	+ ⅜
K Mart 6.2s97	cv	50	91	+ ¼
Disney zr05	...	414	45 ¾	+ ¾

What It Says

Column 1
Bond, Coupon Rate, Date of Maturity

A bond issued by Chiquita which matures in 2004 has a coupon rate of 10 ½. This stated interest rate represents the 10.5 percent paid on the bond's $1,000 face value. The holder of this bond will receive $105 annually.

The **"s"** in the K Mart quotation separates the 6.2 percent rate from the 1997 maturity rate. Note this bond is listed in fractions of 10s instead of 8s.

The Disney bonds are zero coupon bonds as indicated by the **"zr."** They do not pay annual interest.

Column 2
Current Yield

At this day's price, the holder of a Chiquita bond annually will receive 10.7 percent or $10.70 for every $100 invested. The current yield is calculated by dividing the annual interest by the closing price.

"cv" indicates the K Mart bond is convertible and can be exchanged for K Mart stock.

Column 3
Volume

On this day, 500,000 Chiquita bonds were sold. The number 50 has been multiplied by 10,000.

Column 4, 5
Close, Net Change

The final price for Chiquita bonds was $982.50 which was $3.75 more than the final price on the day before.

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Name _____ Date _____

BOND QUOTATIONS

1	2	3	4	5
Bonds	**Cur Yld**	**Vol**	**Close**	**Net Change**
USAir 16¼ 99	14.5	15	111⅞	...
IBM zr01	...	20	42⅛	-¾
CBS 9.8s08	cv	32	109½	+2

Test Your Knowledge

1. How many transactions of USAir bonds were made? _____

2. What year are each of these bonds due?

   USAir _____

   CBS _____

3. What is the stated coupon interest paid to the bondholder for each of these bonds?

   USAir _____

   IBM _____

   CBS _____

4. If you bought the following bonds at these prices, what would your real annual return from interest be?

   USAir _____

   IBM _____

5. What was the closing price for these bonds on the previous day?

   USAir _____

   CBS _____

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MUTUAL FUND QUOTATIONS

1	2	3	4
FIDELITY INVEST	**NAV**	**Offer Price**	**NAV Chg**
MAGLN	68.04	70.14	-0.51
MUNBD	8.22	NL	---
VANGUARD GROUP			
BD MKT	9.48	NL	-0.03
STAR	12.34	NL	+0.04

What It Says

Column 1
Fund Family

Magellan and Municipal Bond are names of mutual funds within the Fidelity Investment family. Bond Market and STAR are mutual funds within the Vanguard Group of funds.

Column 2
Net Asset Value or Sell Price

The NAV stands for the net asset value per share at the close of the last business day. A fund's NAV is calculated by totaling the market value of all securities owned by the fund, subtracting the liabilities, then dividing by the number of fund shares outstanding.

Column 3
Offer or Buy Price

The offer price is the NAV plus a sales charge at the time of purchase. At the close of the business day, the NAV of Fidelity Magellan Mutual Fund was $68.04 per share. The offer price (buy price) was $70.14.

The NL stands for No-load which means that there was no sales commission at the time of purchase. With such funds however, you may pay a management fee and redemption charges. If there is a charge upon sale there will be a 'y' after the name of the fund.

Column 4
Change

The last column shows the change in the NAV from the preceding day's quote. There was a 51 cent loss in net asset value of the Fidelity Magellan Mutual Fund as compared to the previous day. The Vanguard Bond Market Fund lost three cents a share while Star Fund gained four cents.

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Name _____ Date _____

MUTUAL FUND QUOTATIONS

1	2	3	4
FIDELITY INVEST	**NAV**	**Offer Price**	**NAV Chg**
MAGLN	68.04	70.14	-0.51
MUNBD	8.22	NL	---
VANGUARD GROUP			
BD MKT	9.48	NL	-0.03
STAR	12.34	NL	+0.04

Test Your Knowledge

1. What is the net asset value of one share of the Vanguard STAR mutual fund?

_____

2. How much sales commission would you pay if you purchased 10 shares of Fidelity Magellan?

_____

3. How much did Vanguard STAR gain or lose in NAV on this day as compared to the previous day?

_____

4. Mary Mendez purchased 200 shares of Vanguard STAR yesterday. What was the selling price per share yesterday? _____

   How much did she pay for the 200 shares? _____

   If the NAV per share is $15 in five years when Mary sells the shares, how much capital gain will Mary have on the original 200 shares? _____

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QUESTIONS TO ASK BEFORE YOU HIRE A FINANCIAL PLANNER

- What are your credentials?
- What services will you provide?
- How much will it cost?
- How are you paid?

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DESIGNATIONS OF FINANCIAL PLANNERS

CFP — **Certified Financial Planner**

International Board of Certified Financial Planners (IBCFP)

ChFC — **Chartered Financial Consultant**

American College in Pennsylvania (Insurance/Professionals)

CPA — **Certified Public Accountant**

American Institute of Certified Public Accountants

RIA — **Registered Investment Advisor**

Securities and Exchange Commission (SEC) or State Securities Agency

REG REP — **Registered Representative**

National Association of Securities Dealers (NASD)

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Name _____ Date _____

INVESTMENT INFORMATION

UNIT 4 TEST

Matching

Match each of the terms listed below with the numbered definition. Write the letter in the space provided.

A. offering price
B. market price
C. no-load
D. bull market
E. discount
F. prospectus
G. investment club
H. P/E ratio
I. value line
J. bear market
K. buy/sell statements
L. premium

1. _____ a figure used to evaluate the value of the stock
2. _____ legal document describing a stock fund for sale
3. _____ a group of people who pool their funds and information
4. _____ when securities prices are going up
5. _____ the price you would pay to purchase a mutual fund share
6. _____ the price the seller will accept and the buyer will pay
7. _____ sale of a bond at less than face value
8. _____ when securities prices are going down

True or False

Read each statement carefully and mark in the blank a T for True or F for False.

_____ 1. Stock price quotations are published once a week in the **Wall Street Journal.**

_____ 2. When you invest in a mutual fund you have no way of knowing what type of securities the fund will buy.

_____ 3. **Barron's** is a magazine that specializes in the investments of royalty.

_____ 4. A stock's annual dividend per share is private information known only to the corporation, its shareholders, and the Internal Revenue Service.

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_____ 5. Only people who have been designated Certified Financial Planners can promote themselves as financial planners.

_____ 6. An NL in the price quotations for a stock indicates there are no management and transaction fees.

_____ 7. The "change" column in newspaper stock quotations indicates whether the volume of stocks sold has increased or decreased.

_____ 8. The net asset value of a mutual fund is the market value of securities with a fund, minus liabilities, divided by the number of shares.

Multiple Choice

1. Which of the following is NOT a good reason to seek out a financial planner?
   A. saving time
   B. earning more money
   C. having someone else make decisions
   D. gathering more information

2. When comparing bonds with stocks, which of the following is the most accurate measure of the long-term return on a bond?
   A. annual interest rate
   B. coupon rate
   C. dividend rate
   D. yield to maturity

Short Answer

1. In what way is a family of funds useful to the investor?

2. Translate these prices into dollars and cents.

Stock 37 ¾_____ 5 ⅛_____ 80 ⅝_____

Bond 102 ½_____ 99 ⅜_____ 75 ⅞_____

Corporation Bonds
Volume $41,580,000

	Cur Yld	Vol	Close		Net Chg
ATT 5 ½ 97	6.2	2	89	-	1
ATT 6s00	7.0	60	86		...
ATT 8 ⅜26	89.8	105	97⅞	-	⅛
Ames 9.20s05	9.0	25	102½		⅝
Amoco 8 ⅝99	8.7	42	99⅜	-	¼
Apache zr2000	...	4	45	-	½

3. AT&T has issued bonds that will come due in what years? _____

4. What is the coupon rate on the bonds issued by Ames? _____

5. Which bond has no annual interest payment? _____

6. How much will it cost to purchase these bonds:

   Ames _____ Amoco _____

7. What was the price of the Ames bond the day before these quotes? _____

Mutual Funds

	NAV	Offer Price	Chg
Pioneer Fund:			
Bond	9.20	9.63	+ .01
CapGr	11.11	11.79	- .24
CasRes	9.83	10.29	+ .05
Plummer:			
Balan	10.31	NL	- .16
CalTF	45.34	NL	...

8. What is the net asset value of a Pioneer Bond mutual fund share? _____

9. What is the sales charge for a share of the following mutual funds:

   Pioneer Bond _____ Plummer Balance _____

10. What was the price of a Pioneer Capital Growth mutual fund share the day before these quotes? _____

11. List the two methods by which financial planners are paid.

_____

_____

UNIT 5

INVESTMENT FRAUD TOPIC OUTLINE

5•1 **SCAMS, SCHEMES AND SWINDLES**

Worksheet • Readings on Investments

5•2 **HOW TELEMARKETING FRAUD WORKS**

Overhead • Fraudulent Sales Callers Have One Thing In Common

5•3 **INSIDE BOILER ROOMS**

Overhead • Boiler Room Fraud

5•4 **TYPES OF INVESTMENT SCAMS**

Overheads
- Pyramid Schemes are a Fraud
- Pyramid Schemes are Illegal
- Precious Metals and Dirt Pile Scams
- Insider Trading
- Business Opportunity Schemes

5•10 **FRAUDULENT SALES TECHNIQUES**

Overheads
- High-Pressure Sales Tactics
- Immediate Decision
- Sounds Too Good to be True
- Risk-Free Investment
- No Written Information
- We Need Your Credit Card Number
- We Pick Up the Money At Your Home
- You Have Won a Free Gift

5•11 **HOW TO VICTIM-PROOF YOURSELF**

Overhead • Trust Me. This is a Great Opportunity

5•13 **PROTECTING THE INVESTOR**

5•15 **SUMMARY**

Test
Key to Test

5•17 **SELECTED RESOURCES**

UNIT 5

INVESTMENT FRAUD

Unit Objectives

- Discuss ways to distinguish a legitimate telemarketing call from that of a swindler.
- Examine various types of investment fraud.
- Analyze fraudulent sales techniques and appropriate consumer actions.
- Suggest ways to protect yourself from investment fraud.

SCAMS, SCHEMES AND SWINDLES

Americans lose billions of dollars every year to fraudulent investment schemes that promise a no-risk way to double your money in a hurry. Rip-off artists appeal to greed.

Swindlers also exploit fear, the concern about having enough money to meet future living expenses and medical needs. Fear is a particularly powerful motivator for con artists during times of economic downturn in America.

The North American Securities Administrators Association, an association of state investment watchdogs, estimates that unwary investors lose $10 billion a year, about $1 million every hour, to investment fraud promoted over the telephone. Precious metals such as gold and silver, and energy deals such as and oil and gas partnerships, are examples of scams promoted by phone.

It can be difficult to check out investments. There are no tires to kick and you can't take an investment on a test drive. Further, the terms of the investment deal may be difficult to understand. Key facts may be left out and false statements are often part of the sales presentation. To make matters worse, con artists rush investors into giving up their money before they have time to think about whether or not the deal makes sense.

Those who sell fraudulent products or services are not easy to identify. They frequently move from city to city and may assume different names. Many swindlers are expert at what they do, with a real talent for talking people into parting with their money. They are called con artists because what they do is an art, at least to the extent that it can be difficult to master.

A successful con artist will sound and look like a reputable business person. The swindler's promotional materials may be very slick and professional. It is this very slickness that makes people become victims of fraud.

Does the average person stand a chance with a swindler? Yes, but only if she or he allows critical thinking to guide the decision-making process. When greed or fear are the deciding factors, financial disaster is likely to follow.

Introduction

READINGS ON INVESTMENTS

Worksheet 5-19

Have students read and report on current articles on investment fraud.

Do you know a victim?

Have students ask adults whether they know anyone who has been a victim of investment fraud. If so, describe. Was the fraud reported? Could this fraud ever happen to you?

FRAUDULENT SALES CALLERS HAVE ONE THING IN COMMON

Overhead 5-20

Swindlers Are Calling

This publication is recommended as required reading for students.

See Selected Resources 5-17 to order free copies.

Using ***Swindlers Are Calling,*** have students develop skits on "8 Things You Should Know About Telemarketing Fraud." Remind Students to save ***Swindlers Are Calling*** for later use in this unit.

HOW TELEMARKETING FRAUD WORKS

The weapon of choice for most con artists is the telephone. A phone scammer can use the telephone to contact 100 or more potential victims in a single day. These swindlers use the phone as a weapon in much the same way that a mugger uses a handgun. Computers are used to generate special lists of people who may be more likely than others to fall into the trap of a particular investment scam.

How can you tell a legitimate telemarketing call from the seductive sales pitch of a swindler? The following facts about phone fraud are drawn from **Swindlers Are Calling,** a publication prepared and distributed by National Futures Association, the industrywide self-regulatory organization for the futures industry.

1. Most telephone sales calls are made by honest businesses offering legitimate products or services.

But phone fraud is a multi-billion dollar "growth industry" that involves selling bogus investments. Everyone who has a phone is a prospect; whether you become a victim is largely up to you.

2. There is no way to determine whether a sales call is honest simply by talking with someone on the phone.

No matter what questions you ask or how many you ask, skilled swindlers have ready answers. That's why sales calls from persons that you don't know should always be checked out before you actually invest.

3. Phone swindlers are likely to know more about you than you know about them.

They may know your age and income, health and hobbies, occupation and marital status, education, the home you live in, what magazines you read, and whether you've bought by phone in the past. They assume that you want more income, that you're receptive to a bargain, and that you are reluctant to be discourteous to someone on the phone.

4. Fraudulent sales callers have one thing in common: They are skilled liars and experts at deceit.

Their success depends on it. Many are coached to say whatever it takes to get the victim's money. The callers make hundreds of repetitious calls, hour after hour.

5. Phone fraud swindlers are extremely good at sounding as though they represent legitimate businesses.

They offer investments, describe employment opportunities, and the list goes on. Never assume you'll know a phone scam when you hear one. Innovative swindlers constantly devise new schemes.

6. The motto of phone swindlers is "just give us a few good mooches."

Mooch is the term telemarketing scammers use to describe the victim. Most victims are otherwise intelligent and prudent people. Sadly, some families lose savings they worked years to accumulate through a 15-minute phone conversation.

7. The person who initiates the phone call may be you.

It's common for phone crooks to use direct mailings and advertise in reputable publications to encourage prospects to make the initial contact. Just because you phoned for additional information about an investment doesn't mean you should be less cautious about buying by phone from someone you don't know.

8. Victims of phone fraud seldom get their money back.

Despite efforts of law enforcement and regulatory agencies to provide what help they can to victims, swindlers generally take the money and run. Your best protection is to hang up on strangers who offer something that sounds too good to be true.

Overhead 5-21

BOILER ROOM FRAUD

INSIDE BOILER ROOMS

What is a boiler room? These are the rooms that contain the furnaces that building operators use to turn up the heat. The term boiler room also is used to describe the rented office space in which con artists work to turn up the heat on their potential victims. Characteristics of investment scam boiler rooms are:

- **Use temporary office locations with rented furniture.** Phone swindlers are ready to disappear at the first sign of trouble, such as an investigation by the authorities.
- **Call people in other cities and states.** This tactic hinders local, state and federal prosecution, which often requires victims to be in the immediate area.
- **Identify potential investors through mooch lists.** These lists are compiled on the basis of such things as magazine subscriptions and mail-order purchases. Con artists trade among themselves the lists of particularly hot prospects.
- **Train salespeople to counter every possible objection.** They are taught to say and do whatever it takes to get the mooch's money.
- **Offer sales pitches with slick talk about little or no risk, secret tips, and a high rate of return.** The rate is usually much greater than that from more traditional investment opportunities.
- **Demand immediate action.** The last thing a phone swindler wants is for a potential victim to have time to reflect upon the phony investment or, even worse, seek the advice of a knowledgeable third-party, such as an accountant, broker or banker. Swindlers often push victims to send money immediately.

View and discuss the video:
The Boiler Room, *from Arizona Corporation Commission.*
See Selected Resources 5-17.
Introduce the video:
Two young men go to work for a telemarketing firm to sell gold ore investments in Arizona. Initially, they believe it is a legitimate business. They are taught how to use the telephone to sell gold ore shares. Kathryn Seagall, a senior citizen is persuaded to invest her life savings in a non-existent gold mine operation.

Video Discussion Questions:

1. Who were the victims?

2. Was this boiler room fraud unfair? In what ways?

3. How did this fraud limit the freedom of its victim?

4. What were the warning signals that something was wrong?

5. What local and state people and agencies could help verify the reliability of an investment offer?

• **Refuse to disclose the street address of the boiler room operation.** Instead, con artists frequently will provide the address of a mail drop. This decreases the chances of being caught by local law enforcement officials.

• **Avoid the U.S. mails.** Many con artists fear that federal mail fraud statutes will be invoked against them as the result of their schemes. They commonly resort to alternate delivery methods, including overnight delivery services and couriers sent to the home of the investor to pick up the money.

• **Stall suspicious investors who suspect that they have been defrauded.** This process may involve lull letters, in which the promoter of the scam blames the temporary delay in the promised high returns on various factors, including weather, union problems, delayed equipment delivery, labor problems, government red tape, and so on. Such excuses may provide the con artist with valuable additional weeks or months in which to swindle hundreds of additional victims.

• **Pull a disappearing act.** When the heat is on, telephone con artists move on to the next city. Very often, this will also involve a switch in scams, so someone who is a precious metals salesperson today may be selling $99 round trips to Hawaii next week.

TYPES OF INVESTMENT SCAMS

Investment con artists are clever and creative. They base their scams on the latest political and scientific developments in the news. For example, a popular investment scam sells stock in company that is just about to announce a cure for AIDS.

Some swindles focus on specific groups, church groups, blacks, Hispanics, doctors, the elderly, and offer pitches tailor-made to the needs and concerns of these audiences. Still other scams take advantage of economic downturns and employment uncertainty with glowing reports on the earnings of those who buy a franchise or business opportunity.

Among the types of investment scams consumers are likely to encounter are:

- pyramid schemes
- precious metals frauds
- international investing
- franchise and business opportunities
- ponzi schemes
- stock swindles
- affinity fraud

Overhead 5-22

PYRAMID SCHEMES ARE A FRAUD

Pyramid Schemes

Pyramid schemes operate on the principle that each member of a group will receive a profit or a cut for recruiting others to join the scheme. One popular pyramid scheme is the "airplane game" in which new recruits buy in as passengers

PYRAMID SCHEMES ARE ILLEGAL

Overhead 5-23

for $100 and are then told that if they bring in new investors they will be able to move up to flight crew, co-pilot and finally pilot. At that point they will receive $1,000 or more. In another variation on the pyramid scheme, investors buy one gold coin for $50 and are told that, when they reach the top of the pyramid, they will get five gold coins valued at $250.

Pyramid investment scams should not be confused with legitimate sales organizations that recruit to expand their sales staff. A characteristic of legitimate sales services is that the emphasis is on the sales of tangible, usable products rather than simply on recruiting new salespeople. The hallmark of illegal pyramids schemes is that participants receive payment for recruiting new members of the sales force rather than for selling products.

The problem with pyramid sales schemes is mathematical. There simply are not enough potential participants in the whole world to keep pyramids growing steadily for even a few months. Danger signs of pyramid scams include:

- promise of sky-high profits for a small amount of effort
- payment of a membership fee to participate in the scheme
- products have a high price compared to similar products
- unrealistic claims about product quality or performance
- sellers and buyers are expected to recruit new sellers and buyers to keep the pyramid growing.

Welcome to Curd Farms

It may not sound like much of a greeting, but 10,000 investors in the Midwest were recently swindled by it. These consumers lost tens of millions of dollars to promoters who charged $40 for packages of milk culture under name of Culture Farms. The promoters said they planned to produce Cleopatra's Secret, a major new perfume that used the milk product as an ingredient. Investors were told to grow the milk culture in kitchen refrigerators and then present the containers for repurchase by Culture Farms at a guaranteed price. The perfume never materialized and before investors figured out that something smelled wrong more than $100 million in hard-earned savings were gone.

Ponzi Schemes

Ponzi schemes are a type of pyramid scheme named for Charles Ponzi, who duped thousands of New England residents into investing in a postage stamp speculation scheme. Ponzi determined that it was possible to take advantage of differences between U.S. and foreign currencies used to buy and sell international mail coupons.

Ponzi told investors that he could provide a 40 percent return in just 90 days — compared to a measly five percent for bank savings accounts. Ponzi was deluged with funds from investors, taking in $1 million during a single three-hour period.

View and discuss the video: *The Ponzi,*
from Arizona Corporation Commission.
See Selected Resources 5-17.

Introduce the video:
This Ponzi scheme is looking for investors who want to earn money at home. The deal is to buy the formula to grow milk cultures, a "necessary ingredient" in a fictitious cosmetics company. A college student becomes a victim. He loses his car and his money.

Video Discussion Questions

1. Why are investors attracted to a Ponzi scheme?

2. Who makes money from a Ponzi scheme?

3. What were the warning signals that something was wrong?

Though a few early investors were paid off in order to make the scheme look legitimate, an investigation found that Ponzi had only purchased about $30 worth of the international mail coupons.

Ponzi worked in the 1920's, but to this day, the Ponzi scheme continues to work on the rob-Peter-to-pay-Paul principle, as money from new investors is used to pay off earlier investors until the whole scheme collapses. In one recent case, a con artist now serving 12 years in prison told investors that he could buy Mexican pesos for a fraction of their face value and then convert them at full value back into US dollars. Victims in this scheme included members of Kansas churches and Texas motorcycle gang members. The swindler behind the pesos scam took in $27 million, promising investors phenomenal returns of 12 percent weekly — 600 percent a year!

Ponzi schemes often have the following characteristics:

- The promoter promises very large returns on an investment, such as "double your money in 60-90 days."
- A "can't lose" scheme for making money that others have overlooked.
- Payments are made to a few early investors to prove that the investment isn't crooked. These fortunate few are known as songbirds, since they sing the praises of the scam to others, bringing in new victims eager to make the same kind of generous returns.
- The Ponzi scheme collapses when the number of previous investors seeking a return exceeds the number of new investors bringing in additional money.

The Ponzi of Rock and Roll

Charles Ponzi's investment scam may seem like ancient history, but it is kept fresh by new generations of swindlers, including the Ponzi of the rock and roll generation.

One Ohio teenager realized that he could use other people's money to buy rock concert tickets and then turn around and "scalp" them for a 40-50 percent profit or even more. So, the Ohio youngster rounded up his friends to stand in line and buy rock tickets and then scalp them. At first, he ran his business out of the back of a van, but as the word spread, the Ohio youth soon raked in millions of dollars!

When the bubble of this modern-day Ponzi scam burst, the youth would have had to buy every rock concert ticket in Ohio and all surrounding states in order to keep paying out the promised returns to investors. This guy's friends, and their friends, lost money on this scheme.

Precious Metals Frauds

Precious metals always have attracted investors. Such tangibles as gold and silver seem particularly appealing to investors during uncertain times. Con artists urge

PRECIOUS METALS AND DIRT PILE SCAMS

Overhead 5-24

jittery investors to put their savings into something they can hold on to, as opposed to paper investments such as stocks and bonds.

Examples of precious metals schemes include:

Coin swindles. Swindlers may sell consumers coins that are said to be graded at a higher quality level than is actually the case. Often, these coins are delivered in poor condition or are never sent at all.

Gold mining schemes. How does gold, silver or platinum at dirt-cheap prices sound? That is the promise of swindlers who claim to be able to sell precious metals directly from mines. Claims are made that a new technology will be used to recover microscopic gold that other firms have not been able to retrieve. Regulators sometimes refer to these schemes a "dirt pile" swindles involving promises of "no-see-um" gold, since investors never see the promised precious metals. All they get for their money is dirt.

Gold From Beach Sand

Promoters of phony investments sometimes bamboozle investors with mumbo-jumbo about secret methods for discovering or refining precious metals. In one recent case, a brokerage firm sparked more that $150 million in trading in the stock of a company that claimed to be able to convert black volcanic beach sand in Costa Rica into pure gold! The company said that the sand on one beach could produce gold for four thousand years. The company never acquired permission to mine in Costa Rica and, of course, never had the secret sand-to-gold technology. The 39 million shares in this company were driven up in price from $2 to $8 even though gold was never produced.

Bullion deals. How can swindlers avoid delivering when they promise gold bars? One popular stalling tactic: con artists will offer bullion storage services, where a consumer supposedly buys precious metals in bullion form, and then has them stored in a vault. This is an open invitation to fraud. In one major scam, con artists simply pocketed millions of dollars of investor funds and never bothered to buy the gold.

Another popular bullion scheme is bank-financed precious metals or leveraged precious metals. A consumer pays 20 percent of the total cost of gold and then finances the rest, including a heavy dose of interest, storage fees and loan brokering charges. Con artists lie about having connections with major, reputable banks for loan and storage purposes. They simply pocket the money of investors and never buy or store the gold, silver or platinum.

Stock Swindles

Stock swindles pose a major threat to consumers. In the late 1980's small investors lost $2 billion in scams involving penny stock, so-named because the shares sell for

less than $3. A stock swindler may claim that a company has developed a cure for AIDS or is about to announce a huge business deal that will cause its stock to double or triple in value.

A penny stock example: con artists convinced investors to put millions of dollars into a company that claimed to have developed a breakthrough technology — a self-chilling beverage can that would eliminate the need to store soda and other liquids in a refrigerator. When this deal failed, small investors saw their money go down the drain!

Beware of a broker who tells you that he or she has a secret to share that will make it impossible for you to lose money. If this is such a hot tip why would a complete stranger call you? **Trading on the basis of inside information is against the law.** From an ethical standpoint, insider trading jeopardizes the free market where prices move up and down based on information available to all parties.

Overhead 5-25

INSIDER TRADING

Insiders Only

Con artists know that everyone is concerned about losing their money to a swindler. How do they address this issue? One way is to impress a potential victim with their connections and access to special information that makes success inevitable. One such scheme told investors they were chosen from a select group of active investors and financial experts to be a part of the world's most exclusive investment organization. Investors were lured with promises of a constant flow of secret financial information that would create wealth and financial security.

Sound good? Even if it was true, it would be illegal, since trading on the basis of such inside information violates federal law.

International Investing

International investing is a fast growing area of interest for U.S. investors and con artists are not far behind. With the rapid pace of political and economic changes overseas and the strong performance of many foreign stock markets, many American consumers are investing some of their funds abroad. Con artists have responded by offering scams with an international flair. In one recent case, a Washington state con artist fleeced 400 investors out of $7 million by promising 30-40 percent returns on certificates of deposit and other investments through a bank in the Marshall Islands. After the swindler fled the United States, investigators found that the bank existed only on paper and that its sole officer was a Marshall Islands gasoline station attendant who was instructed to go to the post office, pick up investors' checks and then re-mail them to the con artist back in Washington state.

Even when U.S. investors deal with legitimate investment opportunities overseas, they remain vulnerable to such factors as loose or nonexistent investor protection regulation, currency fluctuations, limited opportunities to pursue grievances and

political instability in some nations. Savvy investors will exercise extreme caution before putting money into any foreign investment situation.

Affinity Fraud

Affinity fraud is the term used to describe investment schemes that prey upon members of identifiable groups, including religious communities, the elderly, blacks, Hispanics and professionals, such as lawyers, doctors and even teachers. (Affinity is a word used to describe things that are attracted to one another, are similar to one another, or belong together.) Con artists promote affinity scams that exploit the sense of truth and friendship that exists in groups of people who have something in common. For example, 1,000 immigrants from El Salvador recently saw $6 million of their savings wiped out in a phony investment bank that promoted itself exclusively to Hispanics in the Washington, D.C. area.

Con artists recognize that the tight-knit structure of many groups makes it less likely that a scam will be detected by regulators and law enforcement officials, and that victims will be more likely to forgive one of their own. Affinity fraud also poses a danger since it undercuts the usual warnings about investment schemes promoted by strangers. In these cases, the fraud may come to a consumer's attention as the result of a contact from a friend, colleague or someone who inspires a bond of trust.

A warning: Swindlers who promote affinity fraud schemes will enlist respected leaders within a community or group to spread the word about an investment deal. So, the key to avoid being a victim in an affinity scheme is to check out everything — no matter how trustworthy the person is who brings the investment opportunity to your attention.

Overhead 5-26

BUSINESS OPPORTUNITY SCHEMES

Franchise and Business Opportunities

Franchises and business opportunities address the dream of many Americans to be their own boss. In fact, legitimate franchise operations may soon account for a majority of all retail sales made in the U.S. Unfortunately, con artists realize that the desire of many Americans to own their own business may make these investors less cautious when it comes to evaluating franchises and business opportunity deals. Such investments may be promoted on the basis of the fear of losing a job or general uneasiness about the economic situation.

Ads for fraudulent business opportunity schemes may appear in otherwise reputable television programs, newspapers and magazines. Investors incorrectly assume that since the media outlet is reputable, the advertisers are as well, not realizing that the media may not screen its advertisers. Ads for frauds often offer high income to the person who will invest enough to cover individual start-up costs, ranging from $50 to several thousand dollars. The only people who make money are the swindlers who receive the start-up investment money. Fraudulent business opportunity ads frequently appeal to people who have few job skills and are desperate for money. Examples include work-at-home and animal-raising schemes.

It's a Super Rabbit — Hop on the Deal

Con artists come up with hare-brained schemes to rip off consumers. Take the case of Rex Rabbit, in which investors were promised tax benefits and income for betting their savings on a new breed of super bunnies. First, investors were to get tax breaks for investing in the research to develop the new breed of rabbits. Second, the pelts of the new rabbits were said to be more luxurious than mink and would be sold for top dollar at New York City department stores. Third, the meat of Rex Rabbit was to be an exotic gourmet delicacy. It was rumored that the super rabbit meat would sell for more than $14 an ounce to South Korean mercenaries guarding Saudi Arabian oil fields. This scam took in over $1 million from investors in the Phoenix area, including a group of airline pilots who convinced each other to hop on the deal.

FRAUDULENT SALES TECHNIQUES

The con artists who push investment scams use a wide variety of tricks to get victims to part with their money. Some of the most commonly used tactics are listed below, along with suggested consumer actions.

Overhead 5-27

HIGH-PRESSURE SALES TACTICS

1. High-pressure sales tactics.

Consumer Action: Hang up. Fraudulent telephone sales people do not respect your privacy or your right to say no. They may first try to flatter you and appeal to your interests or concerns. Then, if you do not invest, they may try to make you feel dumb for not recognizing a good opportunity when you see one. You may be accused of being stupid or unconcerned about the future of your family.

Overhead 5-28

IMMEDIATE DECISION

2. "Decide now before the opportunity is gone." The sales person puts pressure on to buy now. Tomorrow will be too late. The deal is only good for today. This opportunity will not last.

Consumer Action: Hang up. Refuse to be pressured. Do not make impulse decisions. Life's real opportunities rarely appear or disappear in a day. Remember that a con artist tries to get your money before you have time to stop and think — or ask the advice of a third party.

Overhead 5-29

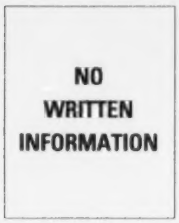
SOUNDS TOO GOOD TO BE TRUE

3. Promises that sound too good to be true. The caller mixes plausible statements with plenty of false promises, hoping you will fall for the swindle.

Consumer Action: Hang up. If it sounds too good to be true, it probably is. Keep in mind that a con artist will tell you whatever he or she thinks it will take to close the sale. Ask to have all claims on paper. Wait to inspect and check out these documents before making a decision. Get the advice of experts, such as a lawyer or accountant before proceeding.

Overhead 5-30

Overhead 5-31



Overhead 5-32

Overhead 5-33

Overhead 5-34

Swindlers Are Calling

Using the pamphlet ***Swindlers Are Calling,*** have students develop skits on "9 Tip-offs that a Caller Could be a Crook" and "10 Ways to Avoid Becoming a Victim."

4. "The investment is risk-free."

Consumer Action: Hang up. Virtually all investments have risk. Only savings in insured financial institutions and government securities are insured. Any claim to the contrary by an investment promoter is a "red flag" warning of a scam.

5. "There is no time to provide written information and references."

Consumer Action: Tell the caller that you must have printed information in order to ask your attorney or financial advisor for an opinion. This is usually enough to stop the swindler. But even if you get material in the mail or by an overnight delivery service, keep in mind that slick brochures and glowing testimonials can be filled with falsehoods and distortion.

6. "We need your credit card or checking account number." The caller may claim to need your credit card or checking account number in order to verify that you are a reputable consumer, or to show your good faith in this special deal.

Consumer Action: Hang up. The swindlers want your credit card number so they can make fraudulent purchases with your card information. Refuse to give financial information, or credit card or checking account numbers over the telephone, other than to legitimate businesses whom you know and trust. Never give personal financial information over the phone to strangers.

7. "We will pick up the money at your home." The caller wants to get your money before you change your mind. By picking up your money the swindler can avoid prosecution under postal fraud laws.

Consumer Action: Hang up. The swindler is trying to force you to act without having time to consider your decision. Get the promotional information in writing, check it out and then make up your mind.

8. "You have won a free gift or trip."

Consumer Action: Hang up. Scam artists know that most people enjoy receiving something for free. The free gift or trip is a sales gimmick often used in real estate investment scams. Remember that "there is no free lunch," particularly when it comes to investing.

HOW TO VICTIM-PROOF YOURSELF

Most people find it hard to believe that they could end up as a victim of investment fraud. "I would spot a scam immediately," they say, or "I am too smart to be cheated out of my hard-earned savings." But never underestimate the ingenuity of people who make their living by fast-talking other people out of their money. Career investment swindlers are very good at their work and know just how to snare even the most reluctant mooch. Con artists take great delight in pulling the wool over the eyes of an investor who is 100 percent confident that he or she could not possibly be hoodwinked. The savvy consumer stays alert to the possibility of fraud and recognizes his or her susceptibility to appeals to the emotions of fear and greed.

TRUST ME. THIS IS A GREAT OPPORTUNITY

Overhead 5-35

Anyone who has the emotions of fear and greed — and that is nearly everyone — can be the victim of an investment swindle. Victims of fraud come from all walks of life. They can be rich or poor, young or old. Professional people can be swindled along with those who are less well educated. People who are especially vulnerable are those who are known to have money to invest and are on fraudulent operators' mooch lists. Older people living alone are likely victims, since they are likely to own their home outright or have substantial equity in it. Many people are at risk simply because they lack information about investment choices and are unaware of how to spot and avoid common investment scams.

Steps to Take to Protect Yourself:

• **Take a breather.** Never invest merely on the basis of a sales pitch. Get the written information and evaluate it.

• **Remember that the person on the other end of the phone is a salesperson,** even if he or she is a broker, financial counselor, or has some other impressive title. The first priority of people who sell investments is not your financial future, but rather to make money for themselves and their employers. This does not mean that all people who promote investments are dishonest, just that their goals may not be the same as your own.

• **Know the deal.** Read the material. Seek the counsel of someone who knows more than you do about investing, such as a broker, accountant, banker or a friend who has enjoyed some success in investing.

• **Check out the salesperson and firm.** For securities investments, call your state securities agency for information about any past disciplinary actions. For the number, check the information directory in your state capitol. (A directory of the North American Securities Administrators Association is included in the appendix.) For futures investing, call National Futures Association's Disciplinary Information Access Line. This NFA public service may be accessed at no cost by calling 1-800-676-4NFA.

• **Stick with investments you understand,** particularly when it comes to their potential risks or rewards. Do not get caught in the trap of trusting a salesperson who claims to understand it all and promises to take care of you.

• **Do not sign papers you have not read or do not understand.** Do not sign forms which have not been completely filled out. Have a lawyer or another knowledgeable person look at any agreement about which you have questions.

• **Be skeptical.** Ask questions about the nature of the investment. Where exactly is your money going? How much will the salesperson get in fees and/or commissions if you invest? What is the track record of the investment? Don't sit still for mumbo-jumbo or double-talk. When it comes to your life savings, the only dumb questions are the ones that you do not ask.

For Further Information

Order a classroom set of the following free publications from the North American Securities Administrators Association, Inc. See Selected Resources 5-17.

- Blind Pool Investment Offering
- Dirt Pile Gold Swindles
- Investing in Coins
- Municipal Bonds
- Penny Stock Fraud
- Precious Metals Bank Financing
- Preying on the Faithful
- Real Estate Limited Partnerships
- Unsuitable Investments

Have students read and report on specific fraud schemes.

PROTECTING THE INVESTOR

Considerable state, federal and self-regulatory agency resources are spent to combat investment fraud. State and federal regulators have police and other authority to use court and administrative actions to stop scams. Industry self-regulators, such as National Futures Association, oversee the conduct of their members and impose discipline when necessary in cases of abuse or fraud.

"Blue sky" laws are the basic tools used by state securities regulators to protect the public against securities fraud. The term blue sky was first used in this manner when a judge ruled that a particular stock had about the same value as a patch of blue sky. The states also have laws and rules that govern brokerage firms, investment advisors and sales practices abuses. Most direct investor protection of individual investors in securities is handled by state securities agencies, rather than the federal government.

Federal securities regulation focuses on the broader issue of how the stock market works on a national and international basis. Two federal securities laws were enacted in the early 1930s. A major impetus behind these two laws was the stock market crash of 1929 and the abusive practices that led to the crash.

The Securities Act of 1933 is known as the "truth in securities" law. It has two basic objectives:

- to require that investors be provided with information concerning securities offered for public sale
- to prevent misrepresentation, deceit, and other fraud in the sale of securities

As a result of this law, securities must be registered with the Securities and Exchange Commission (SEC). Registration is intended to provide adequate and accurate disclosure of facts concerning the company and the securities it proposes to sell.

Investors who purchase securities and suffer losses have important recovery rights under the law if they can prove that there was incomplete or inaccurate disclosure of material facts in the registration statement or prospectus. Investors who think they might have a case under this law should contact their state securities regulator.

Registration of securities does not prevent the sale of stock in risky, poorly managed, or unprofitable companies. Nor does the SEC approve or disapprove securities on their investment quality. While the Securities Act of 1933 offers some consumer protection, the burden of making sound investment choices remains with the investor.

The Securities Exchange Act of 1934 created the Securities and Exchange Commission and spells out the SEC's licensing and other regulatory duties. The power extends to the over-the-counter markets as well as the stock exchanges.

The 1934 law also prohibits insider trading which is the misuse of confidential information that is not available to the general public. An example of such misuse is to buy or sell securities (or tell others to buy or sell) to make profits or avoid losses before such information is generally available to all shareholders.

The SEC has brought civil actions in federal court against persons who violate the insider trading prohibition. The Insider Trading Sanctions Act of 1984 allows fines up to three times the profit gained or loss avoided by fraudulent use of non-public information.

Security Investors Protection Act of 1970. This act established the Security Investors Protection Corporation (SIPC), which is similar in its operation to the Federal Deposit Insurance Corporation which insures deposits in financial institutions.

The SIPC statute provides reimbursement of customer losses in the event of financial failure of a brokerage firm which is a SIPC member. It provides no protection for a decline in value of securities due to economic conditions or fraud. The limits of SIPC coverage are up to $400,000 in securities per customer and up to $100,000 in cash for a total not to exceed $500,000 for any one customer with any single firm.

Commodity Futures Trading Commission (CFTC). This agency of the federal government is similar to the SEC. It regulates futures contracts and the trading of commodities on boards of trade which are similar to stock exchanges.

Self-Regulatory Organizations (SROs)

Self-regulatory organizations are bodies that provide a means for the equities and futures industries to assume part of the responsibility of policing themselves. The two main SROs are the National Association of Securities Dealers and National Futures Association, which are monitored by the SEC and the CFTC, respectively. Among the responsibilities of the SROs are to:

- establish rules governing trading and other activities
- set qualifications for industry professionals
- oversee the conduct of their members
- impose discipline in instances of unethical or illegal behavior

The National Association of Securities Dealers is an association of brokers and dealers in the Over-the-Counter securities market. National Futures Association is the industrywide SRO for firms and individuals that conduct futures business with the public.

In addition to regulators and the industry, there are other public and private organizations that may become involved in cases of investment fraud. The Better Business Bureau (BBB) system provides reliability reports on companies and also records consumer complaints. The complaint-handling effectiveness of the BBB increases when consumers complain immediately upon suspicion of fraud. The Bureau system is one source of information for consumers who want to check out a person who offers an investment deal.

View and discuss the video:
For the Investor's Protection
See Selected Resources 5-17.

Introducing the video:
The 14-minute film was produced by National Futures Association. It explains how futures markets work and how investors in futures markets are being protected.

Video Follow-Up Discussion:
See the Instructor's Guide for the video. Example questions are:

- How do futures markets differ from other markets?
- Do individuals participate in futures markets?
- Who regulates futures markets?
- If an investor in futures has been treated unfairly, what can he/she do?

Guest Speaker

Invite a law enforcement officer or state securities regulator to speak about types of investment fraud in your area and what is being done to protect investors from fraud.

Limited Consumer Protection

Crooks invent scams that fall between the various laws and remain out of the reach of regulators. There is the practical problem of gathering evidence about a scam which originates a long distance away from where the loss actually occurs. There are jurisdictional problems. Which agency should pursue the investigation? The victim's state? The swindler's state? The federal government? Some combination of these?

The quick and easy portability of a swindling operation severely limits the effectiveness of the law enforcement response. Often, by the time the rip-off is discovered, the crooks have closed up shop, moved down the road and reopened under a new name. The problem is so massive that even vigorous, well-staffed, well-coordinated law enforcement efforts can only make a dent in the problem.

On the other hand, regulators can and do cooperate to stop some scams. In one recent fraud case a swindler was caught and jailed by a cooperative posse of local and state securities regulators, members of the U.S. Office of the Attorney General, the U.S. Postal Service and the Internal Revenue Service.

SUMMARY

Although many regulations and institutions have been established to protect consumers in their investment activities, the principle of caveat emptor, let the buyer beware, remains the investor's best protection. Legal protections are limited, fraudulent activities flourish, and once money is invested in a fraudulent scheme the chances of getting it back are extremely small.

Awareness of the possibility of fraud is your first line of defense. Recognize that the emotions of fear and greed can be exploited so that you might be tempted to give your hard-earned savings to a swindler.

Administer Unit Test and Discuss Answers

Test 5-36

UNIT TEST

Key to Test

True or False Questions

1. False. People from all walks of life, young, old, rich and poor, have been taken by securities fraud. Many older people are more vulnerable, but people of all ages and backgrounds have been taken.

2. False. Unscrupulous companies selling fraudulent investments will put "audit statements" in their sales literature. In reality no audit was done. This does not stop them from putting in the name of a large well known auditing firm. They take their chances that no one will check it out.

3. False. The prospectus and sales materials of scams are often as attractive, or even more elegant, than those of legitimate investments. Do not be fooled by slick advertising brochures done with glossy paper. They may not be worth the paper they are written on.

4. True. Sellers of legitimate investments will comply with state laws and be registered in the states where they are selling. Those selling scams and fraudulent investments often do not bother to register.

5. False. Investment fraud is definitely not new, but the methods to lure customers vary. A current innovation is telemarketing fraud. As long as investment products have been available to individual investors, a few unscrupulous salespersons have gladly separated trusting people from their money.

6. True. Many work-at-home schemes are fraudulent. Companies may require from $500 to $5,000 to start up a small home business. Home based get-rich-quick schemes usually make the seller of the scheme rich, not the person who invests in the business. Individuals confined to the home, such as people with young children, or invalids, are likely victims.

Multiple-Choice Questions

1. C is correct. A major sales pitch of the fraudulent investment deal is that the investor will make a high profit in a short period of time. The word "guarantee" is simply used to gain the confidence of the buyer but is worth nothing.

2. C is correct. Both federal and state laws govern securities. The federal statutes set certain disclosure requirements. These disclosures enable buyers to have important information before they make an investment. State laws require registration and enforce illegal operations that violate state laws.

Short Answer

Characteristics of sales offers that could be tip-offs that the investment is a scam:

1. High-pressure sales tactics
2. Need for immediate decision
3. Promises that sound too good to be true
4. Promise of risk-free investments
5. No written information - or inaccurate information
6. Request for your credit card or checking account number
7. Offer to pick up your money at your house
8. Offer of a free gift or trip

SELECTED RESOURCES

Media

Boiler Room, The, video.
Ponzi, The, video.
Pyramid, The, video.
Thieves Market Series, Arizona Corporation Commission, 1200 W. Washington, Phoenix, AZ 85007. 1987. $10.00 per video.

For the Investor's Protection, video or film, with instruction guide. National Futures Association, 200 West Madison Street, Chicago, IL 60606. Complimentary copy upon your request.

Pamphlets

National Futures Association
200 West Madison Street, Chicago, IL 60606.

• Investment Swindles: How They Work and How to Avoid Them	Free
• Swindlers Are Calling	Free

North American Securities Administrators Association, Inc.
555 New Jersey Avenue, N.W., Suite 750, Washington, DC 20001.

• Blind Pool Investment Offering	Free
• Dirt Pile Gold Swindles	Free
• Investing in Coins	Free
• Municipal Bonds	Free
• Penny Stock Fraud	Free
• Precious Metals Bank Financing	Free
• Preying on the Faithful	Free
• Real Estate Limited Partnerships	Free
• Unsuitable Investments	Free

Books

North American Securities Administrators Association and the Council of Better Business Bureaus. **Investor Alert! How to Protect Your Money from Schemes, Scams, and Frauds.** Elmsford, NY: The Benjamin Company, Inc., 1988.

Train , John. **Famous Financial Fiascoes.** New York: Crown Publishers, Inc., 1985.

Weiss, Ann E. **Lies, Deception, and Truth.** Boston: Houghton Mifflin Company, 1988.

Name _____ Date _____

Topic _____

UNIT 5

READINGS ON INVESTMENTS

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article _____

Source _____ Date _____

Author (if given) _____

2. Write a brief summary of the main ideas of the article or pamphlet.

_____

_____

_____

_____

_____

_____

_____

_____

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

_____

_____

_____

Attach a copy of the article or pamphlet to this page.

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Fraudulent Sales Callers Have One Thing in Common:

They are Skilled Liars!

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BOILER ROOM FRAUD

- High-Pressure Sales by Phone
- Temporary Office Location
- Sales People Trained to Lie And Deceive
- High Pay-Offs Promised
- Con-Artist Takes Money And Runs
- Investor Never Sees Money Again

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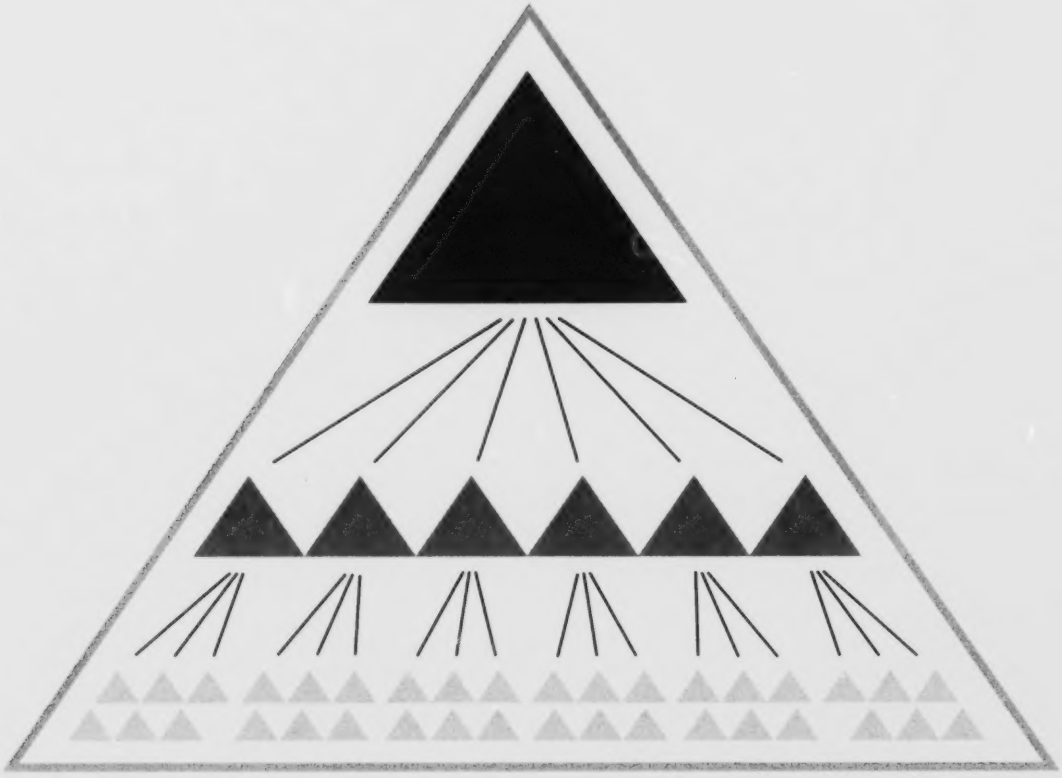
PYRAMID SCHEMES ARE A FRAUD



- One Person Recruits 6 Friends
- Those 6 Recruit 6 More Friends
- A 9-Level Pyramid Involves 10,000,000 Friends
- Almost Everybody Loses

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PYRAMID SCHEMES ARE ILLEGAL

Levels	Number of Participants
1	6
2	36
3	216
4	1,296
5	7,776
6	46,656
7	279,936
8	1,679,616
9	10,077,696
10	60,466,176 — U. S. Population
11	362,797,056
12	2,176,782,336 — World Population
13	13,060,694,016

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PRECIOUS METALS AND DIRT PILE SCAMS

- Promoters bamboozle investors with mumbo-jumbo about secret methods for refining precious metals

- Investors put money in non-existent or low-producing mines

- All they get for their money is dirt

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- Secret Information to Help You Make a Lot of Money

Trading Based on Inside Information is Against the Law

© NICE, Consumer Approach to Investing, 1992

BUSINESS OPPORTUNITY SCHEMES

- Appeal to Being Your Own Boss
- Promise High Income
- Requires High Start-Up Costs
- Only the Swindlers Make Money
- Unemployed People are Often Victims

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HIGH-PRESSURE SALES TACTICS

- Sales person does not respect your right to say no
- Makes you feel stupid if you are not interested in the offer

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Consumer Action:

Hang up!

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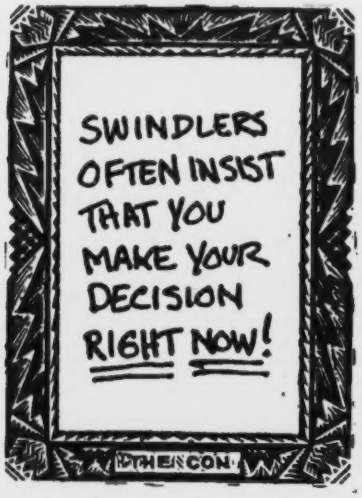
IMMEDIATE DECISION

- Seller puts pressure on to buy now
- Tomorrow will be too late

Consumer Action:

Refuse to be pressured. Check it out.

Do not make impulse purchases.



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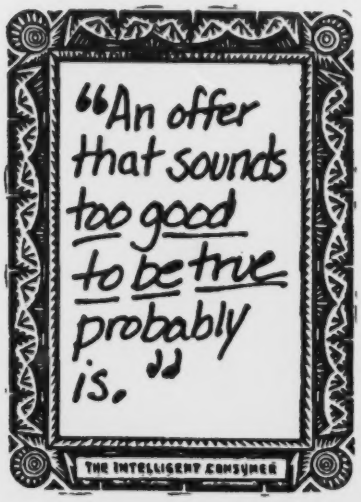
SOUNDS TOO GOOD TO BE TRUE

- Caller mixes believable statements with false promises

Consumer Action:

Ask to have all claims on paper. Get the advice of experts.



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RISK-FREE INVESTMENT

- All investments have risk
- Only savings accounts in insured financial institutions and government securities are insured

---

Consumer Action:

Hang up. The promise of risk-free investment is a red-flag warning of fraud.

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NO WRITTEN INFORMATION

- Seller says there isn't time, or printed material isn't available yet

---

Consumer Action:

Insist on written information. Check with experts. Even slick brochures can be filled with lies and distortion.

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WE NEED YOUR CREDIT CARD OR CHECKING ACCOUNT NUMBER

- Caller needs your number as an "expression of good faith" or to verify that you are a reputable consumer

---

Consumer Action:

Hang up. Refuse to give credit card or checking account numbers over the phone other than to legitimate businesses whom you know and trust.

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WE PICK UP THE MONEY AT YOUR HOME

- The caller wants your money before you change your mind
- Avoids prosecution under mail fraud laws

Consumer Action:

Hang up. Get promotional materials in writing and check it out.

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YOU HAVE WON A FREE GIFT

- Everyone likes to get something free
- You have to send money before you get the free gift
- The gift is usually worthless

Consumer Action:

Hang up. Do not send money.

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TRUST ME. THIS IS A GREAT OPPORTUNITY

- We would not cheat you
- We have your interests in mind
- Do not miss this chance to make money

Consumer Action:

Do not act on trust, greed or fear.

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Name _____ Date _____

INVESTMENT FRAUD

UNIT 5 TEST

True or False Questions

Mark each statement with a T for True or F for False.

_____ 1. Mainly middle class people get taken by securities fraud.

_____ 2. A statement in the sales literature by a well known auditing firm that says "We have reviewed the financial figures and find them to be in order" is good evidence that the investment is legitimate.

_____ 3. Informed consumers can easily recognize the differences between people who sell fraudulent investments and those who are legitimate business people.

_____ 4. Most states have laws requiring people who sell investments or solicit money for charities to register with a state agency.

_____ 5. Investment fraud was uncommon in the United States prior to the 1960s.

_____ 6. A work-at-home plan that requires start-up money from the investor is likely to make more money for the person who sells the plan than for the investor.

Multiple Choice

Circle the letter which answers the question correctly.

1. Which of the following statements is characteristic of securities fraud?
   A. salesperson provides accurate and complete information
   B. salesperson is usually a local person, known to the family
   C. salesperson guarantees that the investor will make high profits
   D. salesperson does not pressure for a quick decision

2. Securities sales are governed by:
   A. state law
   B. federal law
   C. both state and federal law
   D. industry self-regulation only

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Short Answer

List four characteristics of investment sales offers that could be tipoffs that the deal is a scam.

1. _____

2. _____

3. _____

4. _____

UNIT 6

ETHICS AND FRAUD TOPIC OUTLINE

6•1 **ETHICAL DIMENSIONS OF FRAUD**

Worksheet • Describe an Ethical Person

6•2 **FAIRNESS**

6•4 **FREEDOM**

Worksheet • A Summer Job — An Ethical Dilemma

6•5 **VIRTUE**

Overhead • Free to Choose

6•7 **SOCIAL GOOD**

Worksheet • Readings on Investments

Overhead • Fraud Causes Suspicion

6•9 **SUMMARY**

Worksheets • Quotable Quotes

• Investment Fraud Simulation

Test

Key to Test

6•11 **SELECTED RESOURCES**

UNIT 6

Unit Objectives

- Consider four ethical views related to investment fraud — fairness, freedom, virtue and social good.
- Identify characteristics of an ethical person.
- Describe feelings of people who are victims of investment fraud, and of those who victimize others.
- Explain how investment fraud weakens the economic and social structure of a household, community and nation.
- Consider personal responsibility to practice ethical behavior.

Note: Videos appropriate for discussion of ethics throughout this unit include ***The Boiler Room, The Ponzi and The Pyramid,*** *from Arizona Corporation Commission.* See Selected Resources 6-11.

Worksheet 6-13

DESCRIBE AN ETHICAL PERSON

Have students define words related to ethics, and write a paragraph that describes an ethical person.

ETHICS AND FRAUD

Ethical views reflect theories about right and wrong, good and bad. They are broad standards of behavior that help us decide on the rules needed for living together in a society. In this unit we will consider the ethical dimensions of investment fraud.

ETHICAL DIMENSIONS OF FRAUD

Fraud is lying. Fraud is the act of deceiving people by misrepresenting truth. It is lying. In investment fraud someone presents a deal as if it were a genuine opportunity when it really is not. There is no gold in the mine for which shares of stock are sold. There is no product at all in the pyramid scheme. There is little of value in the expensive pamphlet that tells you how to make a pile of money in your own mail-order business. Usually, there isn't even a company making the offer, just a few swindlers with telephones. Fraudulent investment practices are an attempt to get people to invest money in schemes that are false.

Fraud is deception. Investment fraud is designed to deceive the buyer. People are misled into thinking that a genuine investment opportunity exists when in fact it does not. Other examples of deception include exaggerated advertisement claims and bluffing — sometimes seen in poker, warfare, or business. It may be that deception is sometimes justified, as in tricking an enemy in order to win in warfare. But to justify deception, an ethical reason is required. The reason for investment fraud is simply to acquire someone else's money with little effort. Obviously this is not an ethical reason as we shall see when we consider various ethical views.

Fraud is theft. Fraud is not just deception. It is also theft. The crook is trying to take someone's money without that person's genuine agreement. The victims do not truly know what they are agreeing to and therefore do not really consent to the proposal. After all, who would agree to give a pile of money for worthless gold mine stock or an earthworm business? Taking property without consent is stealing. And that is what's going on in investment fraud.

Even honest, non-fraudulent investment sales offers do not guarantee success. Legitimate stock offerings, business ventures, or commodity sales can work out poorly. We can lose money, even a lot of it, in the most straightforward deals. The difference is that in fraudulent ventures we are deceived about the prospects of gain or the risk of loss. A newly formed company trying to market a new product could offer a great chance to "get in on the ground floor." But it is a very high risk. The seller of stock in such a company is not stealing because the investor knowingly agrees to take the chance, like a long-shot in a horse race.

Investment fraud is deception and theft. Since we know that it is wrong to lie and steal, we can say that investment fraud is unethical. But this doesn't tell us how it is unethical, what makes it wrong. This is like knowing that chocolate is fattening, but not knowing why. To understand how chocolate makes us gain weight we need to know the chemistry of calories and how people burn them and store fat. Similarly, to understand how investment fraud is unethical, what makes it wrong, we need to consider ethical viewpoints.

Religious beliefs. Ethical views don't depend upon religion or religious belief, although they overlap with many religious teachings. Even if you do not want to do something, it may be ethical of you to do it. For example, giving back a wallet you find in the street may be the ethical thing to do even though you are tempted to take the money and run. Ethical views help shape our society and the way we see right and wrong.

This unit introduces the idea of basic ethical views and how they operate in many areas of life. We will consider four ethical views:

- **fairness**
- **freedom**
- **virtue**
- **social good**

These ethical views are like different sides of a house (top, sides, back, front). Each shows a different side of investment fraud.

Discussion: Unfairness
Have students give examples of unfairness in everyday life. What makes these situations unfair?

FAIRNESS

The principle of fairness states that we treat all people as equals. We find this in the Golden Rule: Do unto others as you would have them do unto you. Treating people as equals means that they have an equal opportunity to compete for good things. It would be unfair, for example, to give someone a job simply because he is your friend or relative. This does not allow others the same opportunity to compete for the job.

Only facts that are relevant to job performance should be taken into account when deciding who should get the job. To take into consideration someone's race, religion, or sex would be unfair in deciding who should be hired as a computer programmer, for example. Considering job applicants only in light of their ability to write programs is treating them as equals, as competing equally in terms of the job requirements.

Fairness in business requires that people be given an equal chance. This means that the competition occurs so that people succeed or fail on the basis of ability. This is why we have laws against price-fixing and monopoly. Both of these practices limit the opportunity to compete so that those already in the business or those who are already strong have an extra advantage. The principle of fairness

similarly rules out giving someone a contract because of a bribe. Bribery eliminates the equality of the competition for the contract.

The principle of fairness can also be seen in punishments. First, the punishment itself should be fair, neither too much nor too little. Should someone receive ten years in jail for stealing an apple? That sort of question speaks to our sense of fairness. Second, punishments should be applied fairly. Different people should receive the same punishment for the same crime. It wouldn't be treating people as equals to sentence one person to one year in jail and another to ten for the same crime. Fairness requires that parole opportunities be equal as well.

Fairness and Investment Fraud

A clear example of unfairness in investment fraud occurs in insider trading. Insider trading is giving special consideration to certain people by supplying them with information that is not available to the general public. The fairness principle requires that we treat everyone as equals, neither showing favoritism nor taking advantage of anyone. People receiving confidential information are not being treated as equals because they have a secret edge in the investment competition, just as if they were running in a race with a head start.

Activity: You've been caught.
Imagine that you are a telemarketing scam artist who has just been arrested for cheating local people out of more than $80,000. How does it feel to be under arrest? Does it matter that your friends know that you cheat? What do you think would be fair punishment?

The fraudulent schemes used to swindle the average citizen over the phone or by mail are also unfair. Recall that fraud is a form of theft, a way of cheating people out of their money. Theft or cheating is unfair in that the thieves are taking something that they are not entitled to. Those who cheat at cards, for example, take money that they have not really won, that they do not deserve. Similarly, investment swindlers are not entitled to the money they bilk from victims.

Swindlers are not entitled to this money because they have made false claims or promises, since they have no product of genuine value to exchange. The victims are not treated as an equal because they are not given an equal chance to decide and agree on the deal. Even though they appear different, the telephone swindle is unfair the way insider trading is. In both, the possession of information keeps some people from equal consideration in a transaction. With insider trading, the information is given to someone who then has an advantage over the rest of us; in the telephone swindle, the swindler simply keeps the information from the mooch, thereby having an advantage.

Activity: You've been swindled.
Think of a time in your own experience when you felt that you were treated unfairly. Describe how you felt when you discovered that you had been cheated. Do you think the person who treated you unfairly would mind being treated in the same way?

Cheaters want others to play fair. Investment fraud is unfair because it requires that the victims play by the rules so that the cheat can take advantage. Just as in a card game, the cheat needs the other players to play fairly, by the rules. We can ask a cheater the question, "How would you like to be cheated?" Cheats do not want a world where others break the rules, for they would be cheated too. The person who begins the race with a headstart does not want a race where others get the same headstart since that would cancel out the advantage. By not playing by the rules, crooks treat themselves as special and not as everyone's equal.

Sometimes in tough competition, we grudgingly admire the person who pushes the limits and wins. But those who win by taking unfair advantage of others gain nothing of value and are not admired. Instead they rob us of our trust for each other and diminish our ability to live together productively in society.

A SUMMER JOB — AN ETHICAL DILEMMA

Worksheet 6-14

Using Worksheet 6-14, A Summer Job — An Ethical Dilemma, have students work in groups to consider the problem and share their responses with the class.

FREEDOM

Freedom is the ability to choose what to do without interference from others. To make free choices we must be able to reason, to pick among alternative actions. In order to develop this ability, we need help from others, such as parents and teachers. We also need information so that we can make intelligent decisions.

Most people value freedom. We think that life is better if we are free. For example, in some places in the world marriages are still arranged. Parents decide whom their children will marry. Many of our ancestors had their spouses picked for them in this way. Suppose that this method of choosing a spouse worked as well as choosing for ourselves, that personal happiness is the same whichever method is used. Would you still want the freedom to choose your own spouse? If yes, then you value freedom.

There are several fairly common ways that people interfere with other peoples' freedom. Force, deception, and threats usually restrict our freedom.

Discussion: Misleading Advertising
How is misleading advertising like investment fraud?

Deception works in less obvious ways to restrict freedom. In order to think and act freely we must make decisions on available information. Lies steer our thinking down the wrong road by giving us bad directions. When misinformed, we make choices we don't really want.

Another way to see the value of freedom is to consider the importance of rights. Rights entitle us to do certain things and require that others not interfere. Many rights safeguard specific freedoms, such as the freedom to vote or to speak without fear of punishment. The right to privacy has also been defended on the grounds of protecting our freedom. What we say and do in private is up to us since we are not interfering with other peoples' lives when we say and do it.

People value freedom both because it contributes to the social good and because we think that living freely is good in itself. Being free is no guarantee that we will make good choices. It is difficult for a society to decide how much to limit peoples' freedom. Sometimes we limit freedom because it threatens the freedom of others (firing guns in crowds or blasting music in public). In this way, we try to provide the most freedom for the most people.

Freedom and Investment Fraud

Fraud is a form of lying, and lying restricts people's freedom. It restricts their freedom of choice by misdirecting the way they think. Because we are lied to about the investment scam, we are not freely choosing to invest our money. The

investment contract is not freely entered into because we didn't know what we were agreeing to. When our thinking ability is limited, so is our freedom.

Fraud is also stealing, and stealing limits people's freedom by depriving them of opportunities made possible by their property. Because people are swindled out of money, they cannot use that money to do certain things they might like to do. Not being able to do these things is a limit on freedom.

Freedom and rights. Because we are free, we have certain rights. One of these rights is the right to own property. Stealing is the violation of our right to property, in this case, money. In principle, there is no difference between a telephone swindler and a car thief. Both the money we are swindled out of and our car are property. The apparent difference is that we didn't agree to have the thief take our car. But, we didn't actually agree to give our money for some worthless earthworms or shares in a gold mine either. The misrepresentation of what we were buying meant that we were really agreeing to something else.

Insider trading also violates our property rights. Whenever someone in the stock market has unfair advantage, other people's property is devalued. Money gained through insider trading represents money that is stolen from other stockholders.

Discussion: Responsibility to protect yourself

Do people have any control over whether they are victims of fraud? How can investors protect themselves from being cheated?

Freedom brings responsibility. Of course, if we weren't free and didn't have property rights in the first place, we couldn't get swindled, could we? We have to be free to enter into agreements and have the right to agree to property exchanges in order for people to cheat us out of property. We have some control over whether we get cheated. We are somewhat responsible for our own loss of freedom and the violation of our rights. For example, we are in part responsible if someone steals our car after we leave the car unlocked and the keys in the ignition.

Therefore, freedom brings with it important responsibilities. To protect our freedoms we must honor those of others as well as be informed and aware of our rights and how to protect them.

VIRTUE

One of the valuable things about us is our character, the habits which define the ethical nature of a person. Good habits are called virtues; bad habits are called vices. Since none of us is perfect, we all have some vices. Laziness, dishonesty, stinginess, and impatience are pretty common. But, since none of us is totally bad, we also have some virtues, such as compassion, honesty, and courage. Almost every virtue has an opposite vice. Generosity and stinginess; courage and cowardice; patience and impatience. We have varying levels of virtues and vices. We are more or less patient, more or less lazy, and so on.

We value virtues in others and in ourselves. Who would want a friend who is dishonest or impatient or cruel? Having virtues is even important to ourselves. After all, we need patience in order to finish tough jobs; we even need to be patient with ourselves, as when learning a new game or skill.

Activity: Experiencing Desperation
Ask for a group of volunteers who would be willing to go for 48 hours without spending any money of their own. Following this activity, ask participants to discuss how it might feel to lose your life's savings and experience the desperation of being penniless.

Overhead 6-15

FREE
TO
CHOOSE

Discussion: Student Cheating
How is student cheating like investment fraud? If students who cheat receive a higher grade than you how would you feel? What would you do? What if everyone cheated on the exam?

Virtues are also connected to the values emphasized in the other ethical views. A society of honest people will have the social good of trust. In such a society, people won't be burdened by fear of being cheated; they will be more relaxed and peaceful. Similarly, in a society where the virtue of industriousness is valued lots of work will get done. There will be higher productivity than if the people are lazy and are not willing to work hard.

Fairness is itself a virtue. We depend upon it whenever we play games or compete in sports. To play by the rules means to treat everyone as equals; all are the same according to the rules. We see this in such simple things as everyone getting a turn to watch his or her favorite TV show or to use the computer. Being fair means that we are in the habit of treating people as equals, not showing favoritism to our friends or discriminating against people we don't like. The more fair we are, the less we let personal factors influence us.

Virtue is also relevant to freedom. If we are patient, willing to wait for things, then we are not likely to take away someone's freedom by using force to get what we want right away. It also takes patience to choose freely, to think about options and evaluate their results.

Virtues and vices are the ethical habits we have acquired over the years. They control how we think and act time after time. Unlike so many things in the world, such as whether our country goes to war or whether a natural disaster hits, we have some say over our own character. We can examine our virtues and vices and decide on actions that will make us more generous, honest, or patient. We can choose not to lie, not to cheat people, or not to take others' property unfairly.

Virtue and Investment Fraud

When we look at investment fraud from the standpoint of the character of the people involved we may ask the question, "What kind of a person commits investment fraud, or is taken in by it?" Vices of crooks can include dishonesty, laziness and unfairness. Vices of victims can include laziness and greed as well.

Dishonesty. The most obvious vice is probably dishonesty. When swindlers work a boiler room or mail fraud, they are being dishonest. Swindling reflects a habit of thinking and acting. A dishonest person is attracted to swindles and follows through to act in a fraudulent way. Honest people usually do not even think of deceitful schemes, and when such possibilities do occur to them, they do not act on the scheme.

Of course, dishonesty isn't confined to investment fraud crooks. Students who plagiarize others work in school, baseball pitchers who scuff the ball, and scientists who falsify their data, are all behaving dishonestly. The more we act dishonestly, the stronger the vice of dishonesty becomes.

Laziness vs. industriousness. Investment swindlers are also lazy. They want something without doing real work for it. By tricking people to invest their money

in a phony scheme, the swindler can sit back and make easy money. Laziness goes hand in hand with dishonesty because dishonesty is often the easy way out, the action that takes the least amount of effort or risk. Think of cheating in schoolwork. Isn't this the lazy way of trying to get credit or a grade for work? And doesn't it require dishonesty?

The opposite of laziness is the virtue of industriousness, the habit of working for what we want. When we propose a legitimate investment opportunity or hand in schoolwork that we have actually done, we have to make an effort to get what we want. What we present to the potential investor or teacher is also an honest reflection of what we have done. We do not pretend something is true if it is not and we do not hide the truth either.

The person being cheated isn't completely without blame, however. We get cheated, to some extent, because of our own vices. Aren't we like the crook by wanting to get rich quick without working very hard? Isn't this really being lazy and naive as we look forward to getting something for nothing?

Unfairness. Another vice of the investment crook is unfairness. Crooks have the habit of taking what they are not entitled to. They take advantage of others. Swindlers see the world as divided into clever people like themselves and the suckers or mooches. Swindlers excuse their behavior by saying that the mooches deserve to be cheated since they are so stupid or weak. Even though the victims' own vices play a part in their being cheated, this does not make the cheating ethical.

Notice how different vices work together. Investment cheats are lazy and this requires dishonesty so they can get money without working too hard for it. But they still wouldn't carry through on the scam unless they were unfair and had the habit of treating others as less than equals. Vices reinforce each other, making each other stronger and more in control of what we do.

The same is true for virtues. Being honest about what happened sometimes requires courage, the ability to face danger or unappealing consequences. Because honesty and courage require effort, they help us be less lazy and more industrious.

Investment fraud is unethical when viewed as a reflection of a person's character. Fraud strengthens such vices as laziness and dishonesty because we become what we do. But vices of swindlers are just one part of the problem. We need also to be aware of the vices of greed and laziness that tempt people into being tricked and cheated in the first place.

SOCIAL GOOD

When we consider an action, we think of the consequences of it. We weigh the bad and the good that the behavior produces. The ethical view that emphasizes the social good holds that in order for behavior to be ethical, the good must outweigh

the bad for society as a whole. If there are several choices, the one that produces the greatest social good is the ethically preferred choice. Social good and bad is typically considered in terms of overall happiness or utility. This can be difficult to determine precisely, but we can usually come up with pretty good estimates for different choices.

Discussion: Consumer Protection
Should the government increase its protection of consumers against investment fraud? Why or why not? If so, who should pay for increased consumer protection?

For example, if speed limits were lowered to fifty-five miles per hour, the social good of saving lives and gasoline, and lowering the rate of accidents would probably outweigh the loss of time. On the other hand, speed limits can increase the cost of products shipped by truck, and they can try our patience when we would prefer sailing along at eighty miles an hour.

Freedom of expression can also be defended on the grounds of social good. On the negative side are the words that hurt or offend people. Listening to freely expressed beliefs can also prompt people to do foolish things. However, if we allow people to express their opinions freely, it is argued, we are more likely to gain true beliefs and get rid of false ideas (such as the earth is flat, or smoking is not harmful). Having true beliefs is socially better than having false ones. True beliefs enable us to make better choices, get what we want, and be happier.

Ethical Investing
Some people invest money only in those companies that engage in socially responsible behavior.

Many ethical decisions are based upon reasoning about the socially good and bad consequences of behavior. We also use this kind of reasoning in our personal decisions. Imagine that your country badly needed engineers to help rebuild after some natural disaster. If you were to decide in terms of the ethical view of social good, you would choose a career in engineering. Of course, most career decisions do not affect society as directly as this one, but the example shows how even personal choices could be decided by the ethical view of increasing the social good.

Worksheet 6-16

READINGS ON INVESTMENTS

Using Worksheet 6-16 have students read and report on current articles on ethical investing.

Social Good and Investment Fraud

When we consider investment fraud in terms of social good we weigh the benefits and costs (not just in money) brought about by investment fraud. This includes all those affected: the investors, crooks, legitimate business people and the public at large. The benefits seem to go mainly to the crooks. These are primarily monetary, although some might also enjoy fooling people. But what of the costs, the damage investment fraud does?

Obviously, the investors in fraudulent schemes are hurt because they lose money. Consider how investment fraud also harms legitimate business people and investment counselors. Their business may be hurt by people doubting any and all investment opportunities. Just as quacks can damage the reputations of legitimate doctors, so too can fraudulent dealers cast suspicion on people with honest investment proposals. There is a difference between cautious investors and those who think that everyone is out to cheat them.

Overhead 6-17

FRAUD CAUSES SUSPICION

Suspicion. Such a suspicious attitude can hurt potential investors as well as investment counselors and business people. Potential investors may pass up perfectly reasonable opportunities out of fear of being cheated. In this way,

Discussion: Trust
Discuss situations in daily life where we need to trust one another, sometimes even strangers.

investment fraud poisons the atmosphere for legitimate investing, hurting both potential investors and those with whom they could do business.

The general public may be damaged by the way investment fraud breeds suspicion. Investment scams can make us *distrustful* of one another in many ordinary business transactions, not just investment ventures. Will the furnace repairman steal some supplies from the basement? Is the auto mechanic telling the truth about my car needing new brakes? Society cannot function without some level of trust of strangers on whom we must depend.

Of course we need to be cautious, but to be constantly suspicious in our business dealings promotes an uncooperative, hostile social world. It certainly is a less enjoyable place in which to live and work. To see this, think of how violent crime in your city or state creates an atmosphere of fear and hostility. We wonder whom we can *trust*. This breakdown in social structure is hard to notice but is very real. Investment fraud contributes to it.

Investment fraud is just plain wasteful. It wastes people's time and energy. The investors' time and energy is wasted in that nothing of value comes as a result. Moreover, those working the fraud are not producing a good or service with their energies. Think of the ingenuity that often goes into cooking up a fraud scheme and how it could be used for legitimate, ethically acceptable purposes. It's like the time and energy students put into cheating instead of studying for an exam. The effort needed by law enforcement officials also drains valuable human resources that could be used for social benefit.

Investment fraud is unethical because its social costs far outweigh the benefits. Not only that, but those enjoying the benefits are few (the swindlers) and those suffering the costs are many (those defrauded and society as a whole). The many are taken advantage of, and this violates considerations of fairness.

Worksheet 6-18

QUOTABLE QUOTES

Have students read the quotations and explain in their own words what the author meant. Then have students think of current situations that are related to the quotations. Students could collect additional quotations about ethical behavior and personal responsibility.

SUMMARY

When we look at investment fraud from the ethical views of **fairness, freedom, virtue,** and **social good** we see how and why fraud is wrong. Fraud:

- promotes suspicion and distrust
- restricts freedom
- treats people unfairly
- encourages dishonesty, greed, and laziness

When we allow fraud to exist, we all live in a world that is less fair, less free than it would otherwise be.

Thomas Paine, an American philosopher writing at the time of the American Revolution in 1776 said, "A long habit of not thinking a thing wrong gives it the superficial appearance of being right." He was writing about the apathy of the

Note: Investment Fraud Simulation package is included to go along with the film . . .

INVESTMENT FRAUD SIMULATION

Worksheets 6-19 — 6-24

After reading the Instructions for Teachers, have participants present the simulation (using the first ending) to the entire class. Distribute Worksheet 6-23 Debriefing Session Discussion Questions and conduct the debriefing session. Then have students present and discuss the second ending.

Administer Unit Test and Discuss Answers

UNIT TEST

Test 6-25

colonists of the violations of freedoms inflicted on Americans by King George of England. Today one of the tyrants that threatens to destroy freedoms of its victims is investment fraud.

Key to Test

1. Characteristics of ethical persons. Answers could include:

- treat others fairly
- honesty
- can be trusted
- care for others
- meet obligations
- keep promises
- cannot be easily pressured into doing something wrong
- deal with others as they wish others would deal with them

2. A society where everyone cheats. Answers could include:

- Lying, deception and theft would be common.
- Laws would not be enforced.
- The young, weak, elderly and uninformed would be likely victims.
- People would take unfair advantage of others.
- Greed and laziness would be the norm.
- Personal possessions would need constant protection.
- Fear, hostility, tension and conflict would be widespread.

3. How investment fraud harms legitimate business people and investors.

- Business people might be hurt because people may mistrust all investment opportunities.
- Investment fraud casts suspicion on people with honest investment proposals.
- Investors could miss legitimate investment opportunities out of fear of being swindled.

4. Answers will vary. One example of what Edmund Burke may have meant: People have a responsibility to themselves and to society to take action against the unethical behavior of others. When this does not happen, evil tends to outweigh the good that could be accomplished.

5. Examples of how unethical behavior can prevail when people do not act.

- An investor is swindled in a telemarketing scam but decides not to tell anyone because he doesn't want his family and friends to know.
- A person sees someone do an unfair thing, but remains silent.

SELECTED RESOURCES

Media

Boiler Room, The, video.

Ponzi, The, video.

Pyramid, The, video.

Thieves Market Series, Arizona Corporation Commission, 1200 W. Washington, Phoenix, AZ 85007. 1987. $10.00 per video.

Pamphlets

Common Sense and Everyday Ethics, The Ethics Resource Center, 1730 Rhode Island Avenue, N.W., Washington, DC 20036. $1.00

Books

Baker, Michael O. **What Would You Do? Developing and/or Applying Ethical Standards.** Pacific Grove, CA: Midwest Publications, 1989.

Blanchard, Ken and N.V. Peale. **The Power of Ethical Management.** New York: William Morrow and Company, Inc., 1988.

DeGeorge, Richard T. **Business Ethics,** 2nd ed. New York: MacMillan, 1986.

Facione, Peter, Donald Scherer, and Thomas Attig. **Ethics and Society,** 2nd ed. Englewood Cliffs, NJ: Prentice-Hall, 1991.

Velasquez, Manuel. **Business Ethics,** 2nd ed. Englewood Cliffs, NJ: Prentice-Hall, 1988.

Weiss, Ann E. **Lies, Deception, and Truth.** Boston: Houghton Mifflin Company, 1988.

Name _____ Date _____

DESCRIBE AN ETHICAL PERSON

"In general sense," Dr. Albert Schweitzer said, "ethics is the name we give to our concerns for good behavior. We feel an obligation to consider not only our own personal well-being, but also that of others and of human society as a whole."

Directions: After you have defined the words below, write a paragraph that describes an ethical person.

E Equitable _____

T Trustworthy _____

H Honest _____

I Independent _____

C Caring _____

S Sincere _____

Describe an ethical person you know or would like to know:

_____

_____

_____

_____

_____

_____

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Name _____ Date _____

A SUMMER JOB – AN ETHICAL DILEMMA

Suppose you were offered a summer job where you could earn $500 a week as an investment telemarketing sales person.

1. Would you accept the job without question? Yes _____ No _____
2. Would you accept the job only if the business can show that the operation is honest and fair? Yes _____ No _____

3. How could you find out whether the business is honest and fair?

4. What if your best friend works for this company and recommends you for the job? Would this change what you would do?

5. What if you learn that the firm encourages its employees to sell investment products even when these products are not in the best interests of the investor? Would you still accept a position with this firm? Why or why not?

6. What if you desperately need a summer job and you have no other job offers? Would this change what you would do? Why or why not?

7. What if you accept the job and work for three weeks, then you learn that the state securities regulator is investigating the firm. What would you do?

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FREE TO CHOOSE

We Can Choose. . .

- Not to Lie
- Not to Cheat
- Not to Take Property Unfairly

Name _____ Date _____

Topic _____

UNIT 6

READINGS ON INVESTMENTS

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article _____

Source _____ Date _____

Author (if given) _____

2. Write a brief summary of the main ideas of the article or pamphlet.

_____

_____

_____

_____

_____

_____

_____

_____

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

_____

_____

_____

Attach a copy of the article or pamphlet to this page.

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FRAUD CAUSES SUSPICION

Suspicion is harmful

- An investor may miss an opportunity out of fear of being cheated
- Honest businesses may lose sales
- Constant suspicion promotes a hostile social world

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QUOTABLE QUOTES

"A long habit of not thinking a thing wrong gives it a superficial appearance of being right." — Thomas Paine, 1776

1. Explain in your own words what the author meant by this statement.

2. Give examples of actions that are wrong but are so commonplace that some people think they are all right to do.

"Even in today's complex world, knowing what's right is comparatively easy. It's doing what's right that's hard."
— Newsweek Magazine

1. Explain in your own words what the author meant by this statement.

2. Give examples from your own experience of knowing the right thing to do but not doing it.

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INVESTMENT FRAUD

A SIMULATION

The script was abridged and adapted from an actual fraudulent telemarketing script used to entice individuals to invest in a non-operational mining company.

National Institute for Consumer Education
Eastern Michigan University
207 Rackham Building
Ypsilanti, Michigan 48197

Funds for development and printing of the guide were provided by National Futures Association.
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INVESTMENT FRAUD

INSTRUCTIONS FOR TEACHERS

Grade Level
High school, college, adult education

Equipment
Two telephones (real or imaginary)
Two chairs at opposite ends of a table

Class Time
30 minutes, including debriefing discussion

Objectives
Participants will:
- Experience how it might feel to be the victim of a fraud, and to be the swindler.
- Recognize warning signals of investment fraud.
- Discuss ethical views of fairness, freedom, virtue and social good are reflected in investment fraud.

Summary
A telemarketing salesperson tries to sell fraudulent investment units in a non-existent gold and silver mine. The high-pressure salesperson guarantees the investor a 300 percent return on the investment within six months. The problem is that the salesperson is lying.

The simulation has two endings:
First Ending: A trusting consumer lost $10,000.
Second Ending: A savvy consumer did not invest, but rather reported the incident to the authorities.

Prepare for the Simulation
1. Review with the class the warning signals of fraudulent investment schemes as discussed in Unit 5.
2. Select three participants with drama skills.
   - narrator
   - swindler — Tim Thayer
   - mooch — Mrs. Johnson
3. Have the three participants read the script in advance. Encourage them to express the script in their own words.
4. Following the first ending, conduct a debriefing session with the entire class. Use Worksheet 6-23, **Debriefing Session Discussion Questions** and other questions generated by the group.
5. Describe how it might feel to be the victim and the swindler.
6. Have participants read the second ending. Discuss with the entire class the responsibility of consumers to have a healthy skepticism of deals that sound too good to be true.
7. Summarize the ethical views of fairness, freedom, virtue and social good related to this simulated investment fraud situation.

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INVESTMENT FRAUD SCRIPT

Introduction: (Narrator)

We are about to listen in on a telephone conversation between a boiler room scam artist and a potential investor. The trouble is . . . the swindler is lying. The question is . . . will the mooch become a victim?

Swindler: Hello, Is this Mrs. Johnson? My name is Thayer, Tim Thayer. My friends call me Tim and that's what I want you to do. I'm calling today to offer you the opportunity of a lifetime. Do you have a minute to hear how you can make a lot a money in a few short months?

Mooch: Well . . . I guess so. What's up?

Swindler: I am with the International Mining Company, and for a limited time we are selling investment units in high-yield gold and silver mines in Arizona and Utah.

We guarantee that for each $1,000 you invest you will receive a $3,000 return on your money in just six months, and there is no risk of loss whatsoever. Sound good?

Mooch: I don't know enough about gold and silver mining to invest.

Swindler: I understand, Mrs. Johnson, and I appreciate your concern. However, you probably don't know how to build a car . . . and neither do I . . . but that wouldn't keep us from investing in General Motors or Ford stock if we knew we would earn a lot of money.

Doesn't it make sense, Mrs. Johnson, to just look at the return on your investment and leave the mining to us?

Mooch: I just don't know. My money is doing just fine in CDs.

Swindler: The truth, Mrs. Johnson, is that CDs are for suckers. The same goes for savings deposits, T-bills, municipals and blue chip stocks. You keep your money there earning its pitiful six or eight percent a year and you can take it from me, Mrs. Johnson: The rich will stay rich and the poor — including you — will stay poor. What I am talking about is putting an end to that. This is your chance to break out of the pack, move up to the big, time and take care of your future needs.

Probably the hardest thing to do, Mrs. Johnson, is to make a decision. But let's face it, only the doers achieve success — because they reach out and grasp the opportunity. If you don't do anything, nothing gets done! Right?

Mooch: I have to think this one over.

Swindler: Our information is very clear, or I haven't done my job. I have plenty of research information to help you make an intelligent decision. If you are a serious investor, you can check everything out.

Our company has business offices throughout the United States, Europe and the Pacific Rim. We enjoy an international reputation for good management. As a matter of fact, the Securities and Exchange Commission recently listed our company as the #1 investment company in safety and yield over the next ten years.

So, can you make a decision to invest today?

Mooch: I still need more information.

Swindler: Fine, Mrs. Johnson. I'll send all the information you need about our company and its highly trained mining engineers. This is no secret silver mine. We have mountains of research reports, if you care to read and study them.

Oh, by the way, Mrs. Johnson, you do have the cash available to take advantage of this investment opportunity, don't you?

Mooch: Yes, I have the money and it sounds like a good investment. I'd sure like to get that kind of return on my money, but it just sounds too good to be true. Will you put the guarantee in writing?

Swindler: This company is solid. You saw what happened to the savings and loan industry. And now the banks are in trouble. I wouldn't keep my money in any bank these days.

Be safe. Put your money with us. How many units are you prepared to buy today?

Mooch: Oh, I am not sure.

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INVESTMENT FRAUD SCRIPT

First Ending

Swindler: Let me help you make the decision, Mrs. Johnson. A $10,000 investment today will yield $30,000 in just six months. What do you say?

Mooch: Let me think about it for a couple of days.

Swindler: Look, Mrs. Johnson, the deal is for today only. The opportunity will be gone tomorrow. You are not a procrastinator, are you?

A courier will be at your house by 3 o'clock today. Just have your check or cash for $10,000 ready. You won't regret it.

Mooch: You sound honest, and the investment sounds good. I'll have my check ready today at 3 o'clock.

Conclusion

Narrator: The mooch gave the swindler $10,000 of hard-earned savings, and never heard from the con-artist or her money again.

Mrs. Johnson was too embarrassed to tell anyone for days. By the time she told the authorities, the swindler had moved on to take money from a new set of gullible people who trust too much. They let greed or fear distort their comon sense.

Second Ending

Swindler: Look, I can tell that you're a person who likes to put your money to work. You obviously are a savvy investor. You recognize a good investment when you see one. You will not be sorry. I guarantee it.

Mooch: As soon as I get your printed information I will discuss it with my financial advisor and my family.

And, by the way Mr. Thayer, where did you say you are located? I need your address and the phone number of the headquarters office.

Swindler: You don't need to bother with all that information. Just trust me. Listen, Mrs. Johnson, this opportunity may be gone tomorrow. Units are selling fast. Shall I have a courier stop by your house today and pick up your check?

Mooch: Just send the information. I want to contact the nearest Better Business Bureau and the office of my state securities regulator. I like to check these things out, you know.

Swindler: Have a pencil handy? I can give you the number of the International Better Business Bureau. It's 1-800-999-9999. Check us out. I'll call you back in an hour.

Conclusion

Narrator: The 800 number turned out to be a fraud too. The person who answered the 800 number was hired by the National Mining Company to say nice things about the gold and silver mine investment.

Mrs. Johnson did not invest, but rather reported the fraudulent telephone call to the state securities regulator. Local newspapers, radio and TV newscasts picked up the story and warned others of the fraud.

The telemarketing scam moved on to the next victim. Mooches are plentiful and swindlers are difficult to catch. Caveat Emptor — Buyer Beware.

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INVESTMENT FRAUD SIMULATION

DEBRIEFING SESSION DISCUSSION QUESTIONS

1. What were the warning signals that this was a scam?

_____

_____

_____

2. Why did this scam appeal to Mrs. Johnson?

_____

_____

_____

3. How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?

_____

_____

_____

4. What vices did the swindler exhibit in his conversation with Mrs. Johnson?

_____

_____

_____

5. When the swindler is caught, what would be an appropriate punishment for the crime?

_____

_____

_____

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INVESTMENT FRAUD SIMULATION

POSSIBLE RESPONSES TO DEBRIEFING SESSION DISCUSSION QUESTIONS

1. What were the warning signals that this was a scam?

- High-pressure sales techniques
- Promise of high return on money
- No-risk investment, promise of safety
- Promise of an opportunity of a lifetime
- Lies and false promises
- Limited time offer, opportunity gone tomorrow
- Critical of common investments such as CDs and savings accounts

2. Why did this scam appeal to Mrs. Johnson?

- Swindler was friendly
- Mrs. Johnson wanted to get a good return on her investment
- Swindler assured her that she did not have to know about gold and silver in order to invest
- Swindler promised that this investment would help her take care of her future needs
- Swindler promised that information would be sent to Mrs. Johnson
- Mrs. Johnson believed that the swindler was honest and that the investment was good

3. How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?

The experience will probably cause Mrs. Johnson to distrust people who offer to help. It could cause her to pass up reasonable opportunities out of fear of being cheated. In this way, fraud poisons the atmosphere of legitimate business transactions.

4. What vices did the swindler exhibit in his conversation with Mrs. Johnson?

The swindler was:

- Dishonest
- Unfair
- Lazy
- Greedy
- A liar

5. When the swindler is caught, what would be an appropriate punishment for the crime?

Have students consider such factors as the severity of the offense, the impact on the victim, the damage that fraud does to legitimate marketplace transactions, and the costs of protecting people from fraud. Suggested punishments will probably range from a small fine to time in jail. The criminal record is also a form of punishment.

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ETHICS AND FRAUD

UNIT 6 TEST

Short Answer:

1. List four or more characteristics of an ethical person.

2. Describe a society where everyone cheats and no person can be trusted.

3. Explain how investment fraud harms legitimate business people and investors.

4. Describe in your own words what the English statesman Edmund Burke meant what he declared nearly two centuries ago:
   "All that is necessary for the triumph of evil is that enough good men (and women) do nothing."

5. Give an example of how Edmund Burke's statement is applicable in today's society.

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APPENDIX

CONSUMER APPROACH TO INVESTING

A•1 FREE AND INEXPENSIVE MATERIALS

A•3 ADDITIONAL RESOURCES ON INVESTMENTS

A•8 SECURITIES ADMINISTRATORS OFFICES

A•13 OTHER ORGANIZATIONS AND AGENCIES

A•14 GLOSSARY OF TERMS

APPENDIX

FREE AND INEXPENSIVE MATERIALS

Consumer Information Center
Pueblo, CO 81009

• Consumer Information Catalog	Free
• Information About Marketable Treasury Securities	Free
• Investment Swindles: How They Work and How To Avoid Them	Free
• Investors' Bill of Rights	Free
• The Savings Bonds Question and Answer Book	50 cents
• Swindlers are Calling	50 cents
• U.S. Savings Bonds: Now Tax-Free for Education	50 cents
• Understanding Opportunities and Risks in Futures Trading	50 cents

Pamphlets

Common Sense and Everyday Ethics, The Ethics Resource Center, 1730 Rhode Island Avenue, N.W., Washington, DC 20036. $1.00

Federal Reserve Bank of Philadelphia
Securities Division - Treasury Issues Unit
P.O. Box 90
Philadelphia, PA 19105-0090

• Buying Treasury Securities	Free

Federal Trade Commission
Public Reference Branch, Rm. 130
6th Street and Pennsylvania Avenue, N.W.
Washington, DC 20580

• Art Fraud	Free
• Dirt-Pile Scams	Free
• Facts About Financial Planners	50 cents
• Fraud by Phone	Free
• Gemstone Investing	Free
• Investing in Rare Coins	Free
• Investing in Wireless Cable TV	Free
• Land Sales Scams	Free
• Swindlers Are Calling	Free
• Telephone Investment Fraud	Free

Investment Company Institute
1600 M Street, N.W., Suite 600
Washington, DC 20036

• A Close Look at Closed-end Funds	20 cents
• A Translation: Turning Investment-ese into Investment Ease	20 cents
• An Investor's Guide to Reading the Mutual Fund Prospectus	40 cents
• Discipline. It Can't Really Be Good for You, Can It?	15 cents
• Money Market Mutual Funds—A Part of Every Financial Plan	25 cents
• Planning for College? The Mutual Fund Advantage Becomes a Parent	25 cents
• What Is a Mutual Fund? 8 FUNDamentals	25 cents

National Futures Association
Public Affairs and Education
200 West Madison Street, Suite 1600
Chicago, IL 60606-3447

• Arbitration: A Way to Resolve Futures-Related Disputes	Free
• Buying Options on Futures Contracts: A Guide to Their Use and Risks	Free
• Glossary of Futures Terms	Free
• Investment Swindles: How They Work and How to Avoid Them	Free
• Investor's Bill of Rights	Free
• Swindlers Are Calling	Free
• Understanding Opportunities and Risks in Futures Trading	Free

North American Securities Administrators Association, Inc.
555 New Jersey Avenue, N.W., Suite 750
Washington, DC 20001

• Blind Pool Investment Offering	Free
• Dirt Pile Gold Swindles	Free
• Investing in Coins	Free
• Municipal Bonds	Free
• Penny Stock Fraud	Free
• Precious Metals Bank Financing	Free
• Preying on the Faithful	Free
• Real Estate Limited Partnerships	Free
• Unsuitable Investments	Free

U.S. Securities and Exchange Commission
450 5th Street, N.W.
Washington, DC 20006

• The Work of the SEC	Free
• What Every Investor Should Know	Free

ADDITIONAL RESOURCES ON INVESTMENTS

Videos and Filmstrips

Boiler Room, The, video
Theives Market Series, Arizona Corporation Commission, 1200 W. Washington, Phoenix, AZ 85007. 1987. $10.00

Buyer Be Aware: Avoiding Rip-offs, video.
Learning Seed, 330 Telser Rd., Lake Zurich, IL 60047. 1991. $89.00

Commodity Challenge, video.
Chicago Board of Trade, 141 West Jackson Blvd., Chicago, IL 60604. 1988.

Choices and Decisions: Taking Charge of Your Life,
Learning Module and Interactive Video.
Visa, USA, P.O. Box 8999, San Francisco, CA 94128-8999. 1991.

Designing Your Financial Plan, video.
Altschul Group Corporation, 930 Pitner Avenue, Evanston, IL 60202. 1985. $149.00

Dialing For Your Dollars, video.
North American Securities Administrators Association, Inc., 555 New Jersey Avenue, N.W., Suite 750, Washington, DC 20001. 1986.

FDIC Insurance: Protecting Your Deposits, video.
Federal Deposit Insurance Corporation, Office of Consumer Affairs, Washington, DC 20429. 1988.

For the Investors Protection, video or film.
National Futures Association, Public Affairs and Education, 200 West Madison Street, Chicago, IL 60606. 1989. Complimentary copy upon your request.

Future Funds, video or film.
Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 1987. Video - $16.00 Film - $50.00

Go For The Gold, video or filmstrip and cassette.
Saving and Investment Choices. Money Management Institute, Household International, 2700 Sanders Rd., Prospect Heights, IL 60070. 1985.
Video - $12.00 Filmstrip - $8.00

Guide to Savings and Checking Accounts, filmstrips and cassettes.
The Learning Seed Company, 21250 North Andover Road, Kildeer, IL 60047. 1986. $69.00

How to Invest in Mutual Funds, video.
Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 1990. $22.00

Investing in Stocks, video.
1 of a 13 part series - Money Smart: A Guide to Personal Finance. Altschul Group Corporation, 930 Pitner Avenue, Evanston, IL 60202. 1985. $149.00

Investment Strategy For Busy People:
The Mutual Fund Method, video or film.
Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 1986. Video - $18.00 Film - $90.00

Joy of Stocks: Forbes Guide to the Stock Market, video.
10 segments, teaching guide

1. Getting Started
2. Before You Buy
3. Corporate Reports-The Inside Story
4. Fundamentals-The World Outside
5. Technicals-The World Inside
6. Charts
7. Major Shifts
8. Dividend Checklist
9. Down The Road
10. Letters

Social Studies School Service, 10200 Jefferson Boulevard, Room D71, P.O. Box 802, Culver City, CA 90232-0802. 1984. $56.50

Make Money, Make Money, Series of 4 videos.

1. Bonds: Making A Percentage
2. Stock Markets: A Share In The Market
3. The Futures Market: Greed & Fear
4. Real Estate: A Concrete Investment

Ambrose Video Publishing, Inc., Dept. 989T, 381 Park Avenue South, Suite 1601, New York, NY 10157-0926. 1988. $375.00 ($99.95 ea.)

Money and Values, filmstrip and cassette.
Learning Seed, 330 Telser Rd., Lake Zurich, IL 60047. 1980. $68.00

Ponzi, The, video.
Thieves Market Series, Arizona Corporation Commission, 1200 W. Washington, Phoenix, AZ 85007. 1987. $10.00

Pyramid, The, video.
Thieves Market Series, Arizona Corporation Commission, 1200 W. Washington, Phoenix, AZ 85007. 1987. $10.00

Road to Wise Money Management, video and teaching guide.
Planning, credit, banking, first paycheck. Cambridge Career Products, P.O. Box 2153, Charlestown, WV 25328. 1989. $80.00

Smart Investing, video.
Consumer Reports, Karl Lorimar Home Video, 17942 Cowan Ave., Irvine, CA 92714. 1987. $19.95

Too Good To Be True, video.
AFSCME - Labor News Network, 1988.

Understanding the Bond Market, video.
Pitkin Productions, Inc., P.O. Box 11659, Aspen, CO 81612. 1988.

What Is A Mutual Fund? video or film.
Investment Company Institute, 1600 M Street, N.W., Suite 600, Washington, DC 20036. 1990. Video - $18.00 Film - $90.00

Where the World's Market Forces Converge, video or film.
Chicago Board of Trade, 141 West Jackson Boulevard, Chicago, IL 60604.

Winning the Money Game, video or filmstrip and cassette.
Money Management Institute, Household International, 2700 Sanders Rd., Prospect Heights, IL 60070. 1983. Video-$12.00 Filmstrip-$8.00

Software

Crystal Ball, software.
Learning Seed, 330 Telser Rd., Lake Zurich, IL 60047. 1986. $49.00

Financial Cookbook, software, text-workbook, teaching manual.
Southwestern Publishing Co., 5101 Madison Rd., Cincinnati, OH 45227. 1984. $45.00

Investment Mini Course, The, software, activity unit.
C.W. Publications, Box 744, Sterling, IL 61081. 1987. $65.00

Millionaire: The Stock Market Simulation, software, guide.
Blue Chip Software, 185 Berry Street, San Francisco, CA 94107. 1984. $59.95

The Personal Finance Mini Course, software, activity unit.
C.W. Publications, Box 744, Sterling, IL 61081. 1989. $65.00

Savings Mini Course, The, software, activity unit.
C.W. Publications, Box 744, Sterling, IL 61081. 1987. $65.00

Teaching Guides

Chicago Board of Trade. **The Commodity Challenge.** 1987.

College for Financial Planning. **High School Financial Planning Program Teacher's Guide and Student Workbook.** Denver, CO: College for Financial Planning, 1989.

Forbes, Inc. **Forbes Stock Market Course.** New York: Forbes, Inc. Annually updated. Looseleaf notebook format. $79.50

Joint Council on Economic Education. **Economics and the Stock Market Game,** Joint Council on Economic Education, 432 Park Avenue South, New York, NY 10016. 1988.

Money Management Institute. **Your Guide to Teaching Money Management.** Prospect Heights, IL: Household Financial Services, 1988.

Mulford, Carolyn. **Financial Fitness: A Teen Peer Education Program.** Reston, VA: Future Homemakers of America, Inc., 1987.

National Association of Investors Corporation. **First Time Investor Manual.** Royal Oak, MI: National Association of Investors Corporation, 1984.

National Association of Investors Corporation. **Investment Course.** Royal Oak, MI: National Association of Investors Corporation, 1984.

New York Stock Exchange. **Taking Stock In the Future and You and the Investment World.** (from the Teaching Packet). New York Stock Exchange, 1985.

Siegel, Joel G. **Investments: A Self-Teaching Guide.** New York: Wiley, 1986.

Walch, J. Weston, Publisher. **Understanding Our Economy.** 1989.

Books

Alliance Against Fraud in Telemarketing. **The Consumer Protection Handbook.** National Consumers League, 815 15th Street, N.W., Suite 928-N, Washington, DC 20005. 1991. $45 with free updates.

Baker, Michael O. **What Would You Do? Developing and/or Applying Ethical Standards.** Pacific Grove, CA: Midwest Publications, 1989.

Bailard, Thomas E., David L. Biehl, and Ronald Kaiser. **Personal Money Management, 6th edition.** De Soto, TX: MacMillan, 1992.

Barnes, John. **What Investing Is All About.** Adult and Continuing Education Series, 4th edition. Cincinnati: Southwestern Publishing Co., 1990.

Blanchard, Ken and N.V. Peale. **The Power of Ethical Management.** New York: William Morrow and Company, Inc., 1988.

Consumer Reports Books. **Complete Guide to Managing Your Money.** Mount Vernon, NY: Consumers Union of the United States, 1989. $59.90

Costales, S. B. **The Guide to Understanding Financial Statements.** New York: McGraw-Hill, 1979.

DeGeorge, Richard T. **Business Ethics,** 2nd ed. New York: MacMillan, 1986.

Dwyer, Daniel P. **The Seven Stages of Financial Planning,** Chicago: Longman Financial Services Publishing, 1991.

Engel, Louis. **How to Buy Stocks,** 7th ed. New York: Bantam, 1983.

Facione, Peter, Donald Scherer, and Thomas Attig. **Ethics and Society,** 2nd ed. Englewood Cliffs, NJ: Prentice-Hall, 1991.

Garman, Thomas, and Raymond Forgue. **Personal Finance,** 3rd ed. Boston: Houghton Mifflin Company, 1991.

Gitman, Lawrence J. and Michael D. Joehnk. **Personal Financial Planning,** 4th edition. Chicago: Dryden Press, 1987.

Hallman, G. Victor and Jerry S. Rosenbloom. **Personal Financial Planning.** New York: McGraw-Hill, 1987.

Humphrey, Phyllis. **Wall Street on $20 a Month: How to Profit from an Investment Club.** New York: John Wiley & Sons, Inc., 1986.

Kapoor, Jack, Les Dlabay and Robert Hughes, **Personal Finance,** 2nd edition. Homewood, IL: Irwin, 1991.

Leimberg, Stephan R., Martin J. Statinsky and Robert T. LeClair. **The Tools and Techniques of Financial Planning.** Cincinnati: The National Underwriter Company, 1987.

Mason, Jerald W. **The Easy Family Budget.** Boston: Houghton Mifflin Company, 1990.

North American Securities Administrators Association and The Council of Better Business Bureaus. **Investor Alert! How to Protect Your Money from Schemes, Scams, and Frauds.** Elmsford, NY: The Benjamin Company, Inc., 1988.

Peterson, Jean Ross. **It Doesn't Grow On Trees.** Crozet, VA: Betterway Publications, Inc., 1988.

Ryan, Joan S. **Personal Business Management.** Cincinnati: Southwestern Publishing Company, 1991.

Senchack, Andrew J. **Smart Investing: A Step-by-Step Guide to Financial Security.** Dallas: Taylor Publishing Company, 1987.

Shane, Dorlene V. **Be Your Own Financial Planner.** New York: John Wiley and Sons, Inc., 1987.

Train, John. **Famous Financial Fiascos.** New York : Crown Publishers, Inc., 1985.

United States Department of Agriculture. **Managing Your Personal Finances.** 3 parts. Washington, DC: USDA Extension Service, 1987.

Velasquez, Manuel. **Business Ethics,** 2nd ed. Englewood Cliffs, NJ: Prentice-Hall, 1988.

Weiss, Ann E. **Lies, Deception, and Truth.** Boston: Houghton Mifflin Company, 1988.

SECURITIES ADMINISTRATORS OFFICES

The North American Securities Administrators Association is an organization comprised of all state and provincial securities administrators in the United States and Canada who are charged with enforcing their jurisdictions' securities laws and protecting the public from fraudulent investments.

North American Securities Administrators Association, Inc.
555 New Jersey Avenue, N.W., Suite 750
Washington, DC 20001
202-737-0900

Alabama
Securities Commission
770 Washington Avenue, Suite 570
Montgomery, Alabama 36130-1202
205-242-2984

Alaska
Dept. of Commerce and Economic Dev.
Division of Banking, Securities, & Corp.
P.O. Box 110807
Juneau, Alaska 99811-0807
907-465-2521

Alberta
Securities Commission
4th Floor, 300-5th Avenue, S.W.
Calgary, Alberta
T2P 3C4 Canada
403-297-4277

Arizona
Corporation Commission
Securities Division
1200 West Washington, Suite 201
Phoenix, Arizona 85007
602-542-4242

Arkansas
Securities Department
Heritage West Building
201 E. Markham, 3rd Floor
Little Rock, Arkansas 72201
501-324-9260

British Columbia
Securities Commission
865 Hornby Street, 11th Floor
Vancouver, British Columbia
V6Z 2H4 Canada
604-660-4800

California
Department of Corporations
3700 Wilshire Boulevard, Suite 600
Los Angeles, California 90010
213-736-2741

Colorado
Division of Securities
1580 Lincoln, Suite 420
Denver, Colorado 80203
303-894-2320

Connecticut
Department of Banking
Securities/Business Investments Division
44 Capitol Avenue
Hartford, Connecticut 06106
203-566-4560

Delaware
Department of Justice
Division of Securities
State Office Building
820 North French Street, 8th Floor
Wilmington, Delaware 19801
302-577-2515

District of Columbia
Securities Commission
450 5th Street, N.W. Suite 821
Washington, DC 20001
202-626-5105

Florida
Office of The Comptroller
Division of Securities
The Capitol
Tallahassee, Florida 32399-0350
904-488-9805

Georgia
Office of the Secretary of State
Division of Business Services & Regul.
2 Martin Luther King, Jr. Drive
Suite 315, West Tower
Atlanta, Georgia 30334
404-656-2894

Hawaii
Dept. of Commerce & Consumer Affairs
101 Richards Street
Honolulu, Hawaii 96813
808-586-2744

Idaho
Department of Finance
Securities Bureau
700 West State Street
Boise, Idaho 83720
208-334-3684

Illinois
Office of the Secretary of State
Securities Department
900 South Spring Street
Springfield, Illinois 62704
217-782-2256

Indiana
Office of the Secretary of State
Securities Division
302 West Washington, Room E-111
Indianapolis, Indiana 46204
317-232-6681

Iowa
Insurance Division
Securities Bureau
Lucas State Office Building
Des Moines, Iowa 50319
515-281-4441

Kansas
Office of the Securities Commissioner
Landon State Office Building
618 S. Kansas Avenue, 2nd Floor
Topeka, Kansas 66603-3804
913-296-3307

Kentucky
Department of Financial Institutions
Division of Securities
911 Leawood Drive
Frankfort, Kentucky 40601
502-564-3390

Louisiana
Securities Commission
CNG Towers, Suite 420
1450 Poydras Street
New Orleans, Louisiana 70112
504-568-5515

Maine
Dept. of Professional & Financial Regul.
Bureau of Banking
Securities Division
State House Station 121
Augusta, Maine 04333
207-582-8760

Manitoba
Securities Commission
1128-405 Broadway Avenue
Winnipeg, Manitoba
R3C 3L6 Canada
204-945-2548

Maryland
Office of the Attorney General
Division of Securities
200 Saint Paul Place, 20th Floor
Baltimore, Maryland 21202
410-576-6360

Massachusetts
Secretary of the Commonwealth
Securities Division
J. W. McCormack Building
One Ashburton Place, 17th Floor
Boston, Massachusetts 02108
617-727-3548

Mexico
Comision Nacional de Valores
Barranca del Muerto No. 275
Col. San Jose Insurgentes
Mexico, 03900, D. F.
011-525-550-9756

Michigan
Department of Commerce
Corporation & Securities Bureau
6546 Mercantile Way
Lansing, Michigan 48909
517-334-6206

Minnesota
Department of Commerce
133 East Seventh Street
St. Paul, Minnesota 55101
612-296-4026

Mississippi
Office of the Secretary of State
Securities Division
P.O. Box 136
401 Mississippi Street
Jackson, Mississippi 39205
601-359-6371

Missouri
Office of the Secretary of State
301 West High Street
Jefferson City, Missouri 65101
314-751-4136

Montana
Office of the State Auditor
Securities Department
126 North Sanders, Room 270
Helena, Montana 59604
406-444-2040

Nebraska
Department of Banking & Finance
Bureau of Securities
1200 N. Street, Suite 311
Lincoln, Nebraska 68509-5006
402-471-3445

Nevada
Office of the Secretary of State
Securities Division
1771 E. Flamingo Road, Suite 212B
Las Vegas, Nevada 89158
702-486-6440

New Brunswick
Office of the Administrator
Securities Branch
77 Germain Street, Suite 102
St. John, New Brunswick
E2L 4Y9 Canada
507-658-3060

Newfoundland
Securities Commission
Department of Justice
P.O. Box 8700
St. Johns, Newfoundland
A1B 4J6 Canada
709-729-4189

New Hampshire
Bureau of Securities Regulation
Department of State
State House, Room 204
Concord, New Hampshire 03301-4989
603-271-1463

New Jersey
Department of Law & Public Safety
Bureau of Securities
Two Gateway Center, 8th Floor
Newark, New Jersey 07102
201-648-2040

New Mexico
Regulation and Licensing Dept.
Securities Division
725 St. Michaels Drive
Santa Fe, New Mexico 87501
505-827-7140

New York
Department of Law
Bureau of Investor Protection & Securities
120 Broadway, 23rd Floor
New York, New York 10271
212-341-2200

North Carolina
Office of the Secretary of State
Securities Division
300 North Salisbury St., Room 404
Raleigh, North Carolina 27603-5909
919-733-3924

North Dakota
Office of the Securities Commission
600 East Boulevard
Bismarck, North Dakota 58505
701-224-2910

Northwest Territories
Registrar of Securities
Gov't of the Northwest Territories
P.O. Box 1320
Yellowknife, Northwest Territories
X1A 2L9 Canada
403-873-7490

Novia Scotia
Securities Commission
1690 Hollis Street
Halifax, Nova Scotia
B3J 3J9 Canada
902-424-7768

Ohio
Department of Commerce
Division of Securities
77 South High St., 22nd Floor
Columbus, Ohio 43215
614-644-7381

Oklahoma
Department of Securities
P.O. Box 53595
Oklahoma City, Oklahoma 73152
405-521-2451

Ontario
Securities Commission
20 Queen Street West, Suite 1800
Toronto, Ontario
M5H 3S8 Canada
416-597-0681

Oregon
Dept. of Insurance & Finance
Securities Section
Labor & Industries Building
Salem, Oregon 97310
503-378-4387

Pennsylvania
Securities Commission
Eastgate Office Building
1010 North 7th Street, 2nd Floor
Harrisburg, Penn. 17102-1410
717-787-8061

Prince Edward Island
Department of Justice
Securities Act
105 Rochford Street
Charlottetown, P.E.I.
C1A 7N8 Canada
902-368-4550

Quebec
Commission des Valeurs Mobilieres
800 Square Victoria, 17th Floor
Montreal, Quebec
H4Z 1G3 Canada
514-873-5326

Rhode Island
Dept. of Business Regulation
Division of Securities
233 Richmond Street, Suite 232
Providence, R.I. 02903-4322
401-277-3048

Saskatchewan
Securities Commisson
1914 Hamilton Street, Suite 850
Regina, Saskatchewan
S4P 3V7 Canada
306-787-5645

South Carolina
Department of State
Securities Division
1205 Pendleton Street, Suite 501
Columbia, South Carolina 29201
803-734-1087

South Dakota
Division of Securities
910 East Sioux Avenue
Pierre, South Dakota 57501-3940
605-773-4823

Tennessee
Department of Commerce and
Insurance
Securities Division
Volunteer Plaza, Suite 680
500 James Robertson Pkwy.
Nashville, Tennessee 37243-0485
615-741-2947

Texas
State Securities Board
Post Office Box 13167
Capitol Station
Austin, Texas 78711-3167
512-474-2233

Utah
Dept. of Commerce
Division of Securities
160 East 300 South
Salt Lake City, Utah 84111
801-530-6600

Vermont
Dept. of Banking, Insurance & Securities
Securities Division
120 State Street, 2nd Floor
Montpelier, Vermont 05602-3101
802-828-3420

Virginia
State Corporation Commission
Division of Securities & Retail Franchising
1220 Bank Street, 4th Floor
Richmond, Virginia 23209
804-786-7751

Washington
Department of Licensing
Business License Services Division
Securities Division
P.O. Box 9033
Olympia, Washington 98507-9033
206-753-6928

West Virginia
State Auditor's Office
Securities Division
State Capitol Building
Charleston, West Virginia 25305
304-348-2257

Wisconsin
Office of the Commissioner of Securities
111 West Wilson Street
Madison, Wisconsin 53701
608-266-3431

Wyoming
Secretary of State
Securities Division
State Capitol Building
Cheyenne, Wyoming 82002
307-777-7370

Yukon Territory
Department of Justice
Justice Service Division, Corporate Affairs
P.O. Box 2703
Whitehorse, Yukon Territory
Y1A 2C6 Canada
403-667-5005

OTHER ORGANIZATIONS AND AGENCIES

The organzations and agencies listed here provide investor information and assistance.

American Association of Individual Investors
625 N. Michigan Ave., Suite 1900
Chicago, IL 60611
312-280-0170

Commodity Futures Trading Commission
2033 K Street, N.W.
Washington, DC 20581
202-254-8630

Council of Better Business Bureaus
4200 Wilson Blvd., Suite 800
Arlington, VA 22203
703-276-0100

Federal Deposit Insurance Corp.
550 17th Street, N.W.
Washington, DC 20429
202-393-8400

Federal Reserve System
20th and Constitution Ave., N.W.
Washington, DC 20551
202-452-3000

Federal Trade Commission
6th & Pennsylvania, N.W., Room 130
Washington, DC 20580
202-326-3128
202-326-2222 (complaints)

Investment Company Institute
Public Information Department
1600 M Street, N.W., Suite 600
Washington, DC 20036
202-293-7700

National Association of Attorneys General
Hall of the States
444 North Capitol, N.W., Suite 403
Washington, DC 20001
202-628-0435

National Association of Investors Corp.
1515 East Eleven Mile Road
Royal Oak, MI 48067
313-543-0612

National Association of Securities Dealers
1735 K Street, N.W.
Washington, DC 20006
202-728-8000

National Futures Association
200 W. Madison St., Suite 1600
Chicago, IL 60606
312-781-1300
800-592-9400 (Illinois)
800-621-3570 (outside Illinois)

North American Securities Administrators Association, Inc.
555 New Jersey Avenue, N.W., Suite 750
Washington, DC 20001
202-737-0900

Securities and Exchange Commission
450 5th Street, N.W.
Washington, DC 20549
202-272-2650

Securities Industry Association
120 Broadway
New York, NY 10271
212-608-1500

Securities Investor Protection Corporation (SIPC)
805 15th Street, N.W., #800
Washington, DC 20005-2207
202-371-8300

Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402

U.S. Postal Service
475 L'Enfant Plaza W., S.W.
Washington, DC 20260-2100
202-268-2000

GLOSSARY OF TERMS

appreciation — an increase in the basic value of an investment.

arbitration — a system for resolving disputes between two or more parties who submit their disagreement to an impartial panel. Decisions of the panel are binding.

bear market — a market characterized by generally falling prices over a period of several months or years.

blue chip — common stock of a company known nationally for the quality of its products and its profitability.

boiler rooms — fraudulent schemes operated by high-pressure salespersons working out of rooms equipped with many telephones, offering phoney investment opportunities.

bond — certificate representing a loan of money to a corporation or government for a specific period, in exchange for a promise to repay bondholder the amount borrowed plus interest.

broker — a representative who handles transactions related to investors' orders to buy and sell securities.

bull market — a market characterized by generally rising prices over a period of several months or years.

business failure risk — the risk that the business will fail and the investment will be worthless, or that a business will be less profitable than expected.

capital — the wealth of a business or an individual in terms of money or property.

capital gain — the gain realized when a security is sold for more than the purchase price.

capital loss — the loss when a security is sold for less than its purchase price.

capitalism — the economic system practiced in the United States which allows individual ownership of land, buildings and equipment.

caveat emptor — Latin phrase meaning "Let the buyer beware."

CFP — Certified Financial Planner, an individual who has completed the educational requirements of the International Board of Certified Financial Planners (IBCFP) which covers all facets of financial planning from taxes to investments.

ChFC — Chartered Financial Consultant, designation earned by individuals who successfully complete the financial training program offered by the American College in Pennsylvania.

CFTC — Commodity Futures Trading Commission, the federal regulatory agency which monitors the futures and options market.

commission — a broker's fee for buying or selling securities for an investor or earned by a real estate agent for selling property.

commodity — an article of commerce or a product that can be used in commerce, such as agricultural products, metals, petroleum, foreign currencies, financial instruments and indexes.

common stock — the most basic form of corporation ownership. Owners of common stock have a claim on the assets of a company after those of preferred stockholders and bondholders.

compound interest — interest earned on interest which is added to the principal.

convertible bond — a bond than an owner can exchange for stock before maturity.

coupon rate — fixed annual interest rate quoted when a bond is issued.

deep discount bond — see zero coupon bond.

discount — sale of a bond at a price less than face value.

diversification — spreading investment funds among different types of investments and industries.

dividend — payment received by stockholders from the earnings of a corporation.

dollar cost averaging — investing the same fixed dollar amount in the same investment at regular intervals over a long period of time.

ethical views — widely held opinions about what is right and wrong, good and bad.

exchanges — marketplaces for transactions such as the New York Stock Exchange, the American Stock Exchange, and the Chicago Board of Trade.

face value — the amount a bond is worth when it matures.

FDIC — Federal Deposit Insurance Corporation, an agency of the federal government created to guarantee bank deposits.

financial planner — a person who advises others about financial issues.

fraud — the art of deceiving or misrepresenting the truth.

fraud risk — the risk that an investment deceives or misrepresents facts.

full-service brokers — people who buy and sell securities or commodities to investors and offer information and advice.

futures contract — a legal commitment to buy or sell a commodity at a specific future date and price.

goal — a specific statement about a preferred future condition.

hedging — the process of protecting an investment against price increases.

inflation — a general rise in prices of goods and services. This reduces purchasing power of money.

inflation risk — the risk that the financial return on an investment will lose purchasing power due to a general rise in prices of goods and services.

infomercial — radio or television program with both an information and advertising component.

insider trading — the illegal use of investment information not generally known to the public.

interest — for the investor, interest is the payment received from a financial institution for lending money to it.

interest rate risk — the risk that the value of a long-term, fixed return investment will decrease due to a rise in interest rates.

IRA — Individual Retirement Account, a tax-deferred savings account.

junk bonds — high risk bonds issued by corporations of little financial strength. Interest rate is high, but default rate is also high.

life cycle — the pattern which identifes common tasks at various stages of life, such as the 18-24 age group.

limited partnership — an investment vehicle formed of a general partner and limited partners.

liquidity — the ease with which an investment can be converted into cash.

load fund — a mutual fund purchased directly by the public that charges a sales commission when bought.

market price — the price the seller will accept and the buyer will pay.

market risk — the risk that the price of stocks, real estate or other investments will go down due to business cycles or other causes.

mutual fund — a company that invests the pooled money of its shareholders in various types of investments.

NASD — National Association of Securities Dealers, the securities industry's self-regulatory agency. Enforces rules of fair practice in an attempt to prevent investment fraud.

NASDAQ — NASD Automated Quotations, a telecommunications system for relaying information about securities in the over-the-counter market.

NASAA — North American Securities Administrators Association, an oganization of securities administrators charged with enforcing securities laws and protecting investors from fraudulent investments.

NCUA — National Credit Union Administration, a federal government agency created to guarantee credit union deposits.

NFA — National Futures Association, a congressionally authorized self-regulatory organization for the futures industry.

no-load fund — a mutual fund purchased directly by the public; does not have a charge for buying.

odd lot — a unit of less than 100 shares of stock.

offering circulars — disclosure documents provided to investors by the company seeking capital.

OTC market — a market for trading securities not listed on an organized securities exchange. Transactions are handled by telephone and computer networks.

P/E ratio — price/earnings ratio, the price of a stock divided by per share earnings. A figure used to evaluate the value of a stock. Also referred to as the "multiple," that is the number of times by which the company's latest 12-month earning must be multiplied to obtain the current stock price. Obtained by dividing the current earnings into current market value.

penny stocks — high-risk stocks that generally sell for less than $5, and do not trade on any exchange. (Con-artists often deal in penny stock frauds.)

political risk — the risk that government actions such as trade restrictions will negatively affect the price of an investment.

Ponzi scheme — an illegal investment scam named for its inventor, Charles Ponzi.

portfolio — the total investments held by an individual.

preferred stock — ownership in a corporation which has a claim on assets and earnings of a company before those of common stockholders but after bondholders.

premium — sale of a bond at a price greater than face value.

prospectus — legal document describing an investment offered for sale.

pyramid scheme — fraudulent scheme where an investor buys the right to be a sales representative for a "product." Those in the scheme early may profit; those in late always lose.

rate of return — a combination of yield (dividends or interest) and appreciation (increase in basic value of the investment).

redemption fee — a charge levied by the mutual fund when shares are sold.

return — the total income from an investment; includes income plus capital gains or minus capital losses.

risk — in an investment, the uncertainty that you will get an expected return. In insurance, the uncertainty whether a loss will occur.

risk tolerance — a person's capacity to endure market price swings in an investment.

round lot — 100 shares of one stock.

Rule of 72 — a mathematical tool used to determine the length of time needed to double an investment at a given interest rate.

savings — money set aside to meet future needs with very little risk to principal or interest.

securities — a broad range of investment instruments, including stocks, bonds and mutual funds.

SEC — Securities and Exchange Commission, a federal agency established to license brokerage firms and regulate the securities industry. While the SEC helps curb investment fraud, the individual investor, not the SEC, must judge the worth of the security offered for sale.

SIPC — Security Investors Protection Corporation, a non-profit corporation created by Congress. Insures investors in SIPC insured firms from financial loss due to financial failure of the brokerage firm. Insures up to $500,000 per customer.

SRO — self-regulatory organization, securities industry regulatory bodies are under the jurisdiction of the SEC. Futures industry regulatory bodies are under the jurisdiction of the CFTC.

stock — an investment that represents ownership in a company, also known as a share.

street name — when securities are held in the name of the broker rather than the investor.

tax-exempt investments — investments which are not subject to tax on income earned.

time value of money — increase in an amount of money over time as a result of investment earnings.

values — beliefs or ideas that are considered desirable and important.

yield — interest or dividend generated by the investment, generally calculated as a percentage of the amount invested. (see rate of return)

yield to maturity — the total annual rate of return on a bond when it is held to maturity, considering the purchase price, time to maturity, value at maturity and the annual dollar amount of interest earned.

zero coupon bonds — bonds issued for less than face value; they pay no interest income. Return to the investor occurs when the bond is sold or redeemed. Also called deep discount bonds.